with no Constitution; and an intended treaty relationship with Great Britain, but as yet no treaty. These features, however, did not disturb the administration of the country, which in Feysal's first half-year proceeded without interruption. The Naqib and his Council, correctly resigning on the King's accession, were re-instated with changes. The new Cabinet formed on 10 September included Naji al-Suweydi, a lawyer and patriot of distinguished name and record, as Minister of Justice; a Mosul Christian doctor Hanna Khayyat as Minister (later Director-General) of Health; and most of the former Ministers, including Ja'far Pasha in Defence and Sasun Haqqayl in Finance. Haji Ramzi, a nonentity who had succeeded Sayid Talib at Interior, retained that office. The Ministers of Justice, Works, and Awqaf were unchanged. The new separate Ministry of Education was entrusted to the learned Shi'i divine Sayid Muhammad 'Ali al-Shahristani. This Cabinet was unaltered till March 1924. Among the Advisers, Cornwallis was to remain in Interior for the next fourteen years; Bonham-Carter retired in May 1921, replaced for a year by Nigel Davidson also from the Sudan and thereafter by E. M. Dinwoo; Atkinson, leaving for India, was succeeded by his deputy H. H. Wheatley. Lionel Smith became adviser to Education, Colonel P. Joyce—a colleague of the Amir Feysal and of Lawrence in the Arabian campaign—to Defence. Slater and Cooke were unchanged.

The grouping of departments differed widely from that practised under the Secretariats of the Wilson régime (p. 108). The Ministry of Interior covered, besides tribal, 'political', and municipal affairs, the 'Iraq Police, the civil prisons, the Agricultural and Veterinary departments, the Health service (when it ceased to be a Ministry), the Press Bureau and the department of Revenue until its transfer to Finance in October 1921. The Ministry of Finance dealt with its normal revenue, expenditure, accounting, budgeting, currency, and establishment functions, and controlled the Port of Basra; that of Communications and Works covered the departments of Irrigation, Public Works, Posts and Telegraphs, Surveys, and the Railways.

The Ministry's task of governing was embarrassed by a financial stringency which was aggravated by the disorders of the last year, by the continuance of post-war economic depression, and by the need to provide funds for the Ministry of Defence and for the Throne itself; nor, with a press and public outcry in Great Britain demanding ruthless economy in 'Iraq—or indeed outright evacuation from it—could funds be expected from that quarter. The new State started without debts, but with such liquid assets only as it could earn. The public services of Health, Education, Works, and the rest were confronted with unavoidable reductions at a

1[1921 - - - Analyst]

[illegible] economy when the public of a new State would hope for rapid development. Hospitals and dispensaries must, for the time, be barely maintained; schools could be only slightly increased, secondary and technical education could expand far less than the public desire and need indicated. The Ministry of Health and Education was divided into two, that of Health here to become a new Department of Interior. Few public works, it was evident, could be attempted; roads must remain rough unmetalled tracks. The Agricultural Department could but continue its work of research and demonstration upon a minor scale, that of Irrigation must be content with maintenance and minor works.

631 In the Irak,[1] the alterations from Turkish administrative units and their grouping which had been made in the period from 1917 to 1920 were gradually reintroduced. The centre of Sulaymaniya, as will be seen, varied from month to month. Kirkuk, detached from Baghdad, became a liwa early in 1920. Arbil, a sub-liwa of Kirkuk in 1920, was separated from it in 1923. Diwaniya broke off from Hilla. No more was heard of Basra separation. The Divisional Councils of pre-intervention days were dead; the Turkish 'Administrative Councils' of officials and notables returned to life at each liwa and qadha. 'Iraq' administrative officials, Mutasarrifs and Qa'immaqams, set to work amicably in most areas with their British colleagues, who, almost to a man, loyally supported the new régime; but in the provinces, as in the central Government, the difficulties of divided control were soon, though not everywhere, to manifest themselves.

632 In the municipalities, a number of the services installed by the British Army were passed over to the Mayors and their Councils. The latter from early in 1920 were no longer nominated but once again chosen by election under the reintroduced Turkish regulations. Municipal pride developed, and signs of keen local initiative—emerged, unfortunately, by poverty—were apparent in the three 209 larger and many smaller towns. Newspapers, all privately owned save at Kirkuk and Sulaymaniya, began to multiply; and an 'Iraq 207 Government Gazette' came into being. Literary and charitable 214 institutions revived or came to birth, designed not least to combat

[1] The British Administrative Inspectors in Irak as in the Ministry of Interior, early in 1923, were: C. J. Edmonds, G. V. B. Gillet,* C. C. Ames,* S. G. C. Morris, H. St. Pinsent, E. C. H. Allen,* W. R. Lyon,* A. F. Miller,* E. B. Soane,* L. Rothwell, S. E. Sheppard, H. C. Fuller, S. E. Atherton,* W. C. F. Wilkie,* L. M. Yate, G. C. Keating,* J. F. D. Jeffries, L. W. Bond, S. H. Longrigg, A. H. Dickinson,* H. J. Liloy,* and S. F. Jordan.*

Those marked * were still so employed in 1923, with the addition of C. Gates, A. J. B. Chapman, J. B. Cuthbert (c. 1921), Gillet, Morris, Pinsent, Rothwell, Bond, and Jeffries had left 'Iraq, Fuller had died, and Longrigg and Sheppard had moved to Persia. Thereafter no more Administrative Inspectors were recruited, except S. S. Stafford (1926–29), from the Sudan.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

equivalent to Rs. [illegible], Rs. [illegible], and finally [illegible] per cent. of the Japanese imports. Russian competition, begun with formidable imports in 1933, did not persist.

The transit trade with Persia, which by all indications had been under sentence of disappearance, survived though with a greatly lost of volume. It was aided by central and northern Persia's import of oil products, and by a small trade from the Lower across 'Iraq. Persian attempts to divert traffic from 'Iraq routes, however, continued, and Muhammerah (now Khorramshahr) began to replace Baghdad as the financial centre of the trade.

The banking and financial background of internal business varied little, though an intention of close Government control was shown by the law restricting certain occupations to 'Iraqis, by insurance on security deposits from foreign insurance companies, by the expressed willingness of Government to participate directly in industry and, early in 1938, by a law for the control of banking. The currency was well maintained on its sterling parity, the Board in London contributing an annual profit to the 'Iraq Treasury. The handling, transport, and distribution of merchandise was in some degree modernized; shops and hotels of European pattern multiplied, not in Baghdad alone, with Jews and Christians still prominent in these activities. Features of the period, which helped to bridge the 'Iraq of the 'twenties to that of the mid-century, were the beginnings of new suburbs, the modern villas, the many private cars, and the rudimentary bus services of the principal cities. They served a public in which the townsmen had in hundreds consumed fresh dress for European, had often doffed the characteristic 'Iraqi cabara in favour of a hat or bare head, and could walk out with ladies among whom the veil was no longer universal.

Local industry advanced but slowly. To the enterprises mentioned on earlier pages (p. [illegible]) the years from 1934 to 1937 had little to add. One or two of the small textile factories were enlarged with German machinery and Czech operators, more small cigarette factories and more mechanized brick kilns were established, one-room ice and soda factories multiplied, a third cotton ginnery was planned for the Kut area, and enterprises for the making of confectionery and matches came into humble existence. Yasin Pacha's cement project, in spite of a visit by German experts, failed to materialize, and another cement scheme, in which an English promoter was active, inspired no confidence.

In oil development, on the other hand, these years were highly significant. The 'Iraq Petroleum and the B.O.D. Companies (p. [illegible]) made annual dead-rent payments to a combined total of more than half a million pounds yearly until 1937, and thereafter the I.P.C. royalties alone doubled this amount. After a ceremonial

[illegible] to ensure Arab rights in the Holy Land, as by that of the Foreign Minister, Mr Balfour, to the Zionists, in June.

The elder King was taken to the Lebanon for the summer, and there hailed by village enthusiasts as the 'King of Syria'. In Baghdad a new British Ambassador, Sir Basil Gordon, to whom the Middle East owed its problems were unbundled, succeeded Paterson in March 1929.

The financial needs of the State, which Faisal is ever spending more and more serious, were met by a grant of credits by the British Government for the pressing needs of the Railway and equipment for the Army. Nearly £3 million was thus made available on the security of Iraq's oil revenues and with conditions of moderate interest and repayment spread over seventeen years. An interest-free loan was granted at the same time by the Iraq Petroleum Company in return for a seven-year postponement of its export obligations under the K.O.D. Company's concession. It was payable in six half-yearly instalments of £500,000 each, and repayable at interest out of royalties.

The Railway section from Tell Kotchek to Mosul was completed, an unprecedentedly high cost, and trains could now run from the city to Istanbul. The Ear barrage and Channel Inspection were completed in March 1929 the official opening had been King Ghazi's last public act. With its fifty-six mechanically-operated gates, overall width of 1,615 feet, lock, and fish-ladder, this important work had cost £1,100,000 and, given full dependent cultivation (of present lacking), was capable of the controlled irrigation of a million acres. The sovereign Tigris regulator, at the end of the branch of the Kufa channel, was erected in 1929-30, also by Messrs. Sutton Beatty. A new and improved Diyala weir (p. 1873) was undertaken in 1929 and completed by the end of 1930. Execution of the Shatt-al-Hilla project, which had been revised urgently after the flood-time floods of 1928, was entrusted in June 1929 by contract to Messrs. Sutton Beatty for £700,000 for the first phase, that of the main canal to the lake at Samawah and the controlled outlet from the lake to the east into Dibis depression. Work on these was pressed forward. The first of the two steel bridges at Baghdad, built under contract by Messrs. Holloway Bros., was completed; it formed an imposing structure, 700 ft. long and 50 ft. wide, and, named al-Mu'minn Bridge, was opened with ceremony by the Regent. Bridge tolls were abolished throughout the country. A long-standing project drew nearer to realization when a Government bank, to be known as the Rafidain Bank, was established by law though not yet opened; its initial capital was fixed at £500,000, subscribed in part by the State. A revised version of the capital works programme was evolved by Ramzi

[illegible] the same amount at 5 per cent. interest, redeemable in ten years. The loans, regarded as experimental, were well received but too small to be of deflationary value. The Bank of Rome disappeared in [illegible]. The State-owned Sulphur Bank opened in the same year and handled Government accounts; by [illegible] its trading began to show profit. The Agricultural and Industrial Bank developed within narrow limits during the war period, and in [illegible] a division into two separate institutions, for Agriculture and for Industry, was decided, to be followed later by connected Real Estate and Mortgage Banks. The Arab Bank (of Palestine) opened a branch in Baghdad in the same year.

The natural development of the territory, which proceeded hopefully till [illegible], was thereafter of necessity neglected until the end of the war. But Iraq was at least fortunate in that, far from a record of destruction or retrogression—the common fate of Europe—it gained considerable additions, at others' expense, to its communication system. The railway rolling stock was augmented by war-time loans from the military authorities, current maintenance was assured by military help in vehicles and equipment from British or lend-lease sources and, for a time, by numbers of imported railway workers, and problems of excessive traffic—notably in goods for Turkey and the Levant, and in grain for movement to Basra—were amicably handled. The military Kut-Baghdad-Ba'quba line was removed after the war. By [illegible] it was possible for the Railway Directorate to plan again in terms of major development. Its projects included a Baghdad rail-and-road bridge (in replacement of the old waggon-ferry), a bridge at Mussayib to give access to Karbala, a modern station and office block and new marshalling yards at Baghdad, and a sixty-five-mile extension of the line from Karbala to Arbil, with a Lesser Zab bridge.*

The important developments at the Port of Basra and its vicinity carried out by military agency included wharves, sidings and approaches, storage facilities, the Shatt al-'Arab bridge, and a Ma'qil-Abbas railway line. Considerable parts of these additions survived the disappearance of Failures, though the military jetties at Umm Qasr on the Khawr 'Abdullah, and the railway joining these to Basra, were dismantled. The military control of Tigris river traffic, relinquished in [illegible], bequeathed a permanent legacy of river improvement and repair facilities. With the disappearance of military traffic, the Lynch boats and their rivals could again dispute the civilian traffic, which could not long suffice for all.

* Other projects studied at the time were the conversion of all metre-gauge lines to standard gauge, a Baghdad-Rome line across the desert, a standard-gauge line from Kut into Persia, a Karbala-Najf-Kufa line, and a standard-gauge Mosul-Diyarbakr connection. None of these materialized.

X

END OF THE HALF-CENTURY

[illegible]

[illegible] The resignation of the Pachachi Government was followed by a month of uncertainty while the choice of a successor Cabinet was delayed. Despite the alleged misgivings of the Regent, the premiership fell on 27 February 1946 to Tawfiq al-Suwaydi, a statesman whose many gifts did not include that of creating confidence. He retained the portfolio of Foreign Affairs, brought the skill and vigorous Sir Munnam to Works, General Jamil Vamiq to Defence, Umar Vaghani to Justice, and Sidnad Mukhtar Salam to Social Affairs. To the three all-important Ministries of Interior, Finance, and Supply he appointed respectively Sa'd Salih, a Shi'i ex-Mutasarrif hostile to Salih Jabr, Sidd al-Wahhab Mahmud, a Sharq lawyer with a strong political part, and another Shi'i, Sidd al-Jabbar al-Chalabi, of American education and unusual ability. Two more successors assumed duty at the Ministries of Economics and Education: Sidd al-Chalabi al-Chalabi—a third Shi'i and ex-official—and Yaqib al-Sawi. The composition of this Cabinet was modified in April by the substitution of Dr. Shawkat al-Zahawi, a Kurdish pathologist, for Salam at Social Affairs, and, in the last days of its short life, by the move of Sir Munnam to Foreign Affairs and Chalabi to Works.

[illegible] Inspired by liberal views, the Ministry started with fair hopes. Although, surprisingly, no budget for 1946-7 was submitted, the State finances were still treated as giving no cause for immediate alarm. The 'hard currency' agreement made with the British in 1945 was renewed for a year, and a British trade mission under Lord Davidson was welcomed in Baghdad. The new Electoral Law long under preparation was passed; substantially improving and liberalizing the existing procedures, it provided for the giving of due notice and publicity to forthcoming elections and to the candidates who offered themselves, and for the fragmentation of Iraqis into constituencies which would produce 158 instead of 113 deputies. It did not, however, introduce direct one-stage election, for which the Opposition parties combined to press as likely to be 'freer'. The Liwa Administration Law, passed in February, gave promise of greater zeal and initiative in local government, and of independent action in case of disorder.

[illegible] Countryside security was well maintained. Winter passed into spring without the appearance of the expected trouble in Kurdistan,

1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

in Government and notably by the Liberal Party under Sa'd Ṣalih: their programme was generally one of neutrality (or, as some said, friendship) towards Russia, armed intervention in Palestine, and comprehensive hostility to the British. The Prime Minister spoke of revision of the Anglo-'Iraq Treaty, help to local industry, a State-owned oil refinery, a National Bank, more and better education and a university, public works, greater administrative devolution, encouragement to trade unionism, and the firmest resistance to Communism. He could count upon the Regent's support and that of Nuri Sa'id, and could well hope thereby for a successful term of office.

But, politics apart, he was faced by serious difficulties. One of these was the deterioration of the administration, which little was done to restore. Another and more pressing was the worsening financial position. A budget submitted tardily for 1947–8 showed that the main revenues had since 1944 been far from keeping pace with increasing costs, and represented a proportion of the national wealth far smaller than before the war; many fixed dues and charges remained at their old levels, neither land-revenue nor customs receipts had moved upward proportionately to costs, and the social services had been allowed to develop since the war with more generosity than prudence. The year opened with but a small residue of the war-time surplus, and a clear deficit in the year's estimates. A galling shortage of hard currency was felt by merchants eager to import, and the year's harvest was so far below average that it was necessary to take thought for the import of grain; hoarding and unwise exporting had by the later months of 1947 led already to a serious deficiency of food stocks. The flotation of an internal loan of ID 1 million at 3 per cent., ostensibly for capital works, could serve only for current exigencies, and the issue of a second million at 3½ per cent., reluctantly subscribed in January 1948, did no more. The sensitive question of 'Iraqi sterling balances in Britain (which amounted currently to some £60 million) was settled after long consultations by an agreement of 13 August 1947 whereby a sum of £15 million, with further releases for special purposes, was to be made available in instalments between that date and July 1952. In November a supplementary agreement, replacing various interim arrangements, regulated Iraq's allowance of hard currencies, and permitted an expenditure in hard currency of £5,500,000 for the twelve months from June 1948.

The withdrawal of the last British troops in October, with large transfers of war material to the 'Iraq Army, left only the Shu'ayba and Habbaniya garrisons authorized by the 1930 Treaty. But the Treaty itself was under heavy political fire throughout the year. Talks proceeded in the Embassy, Ministries, and the Palace, and

1: Longrigg G-4,5 (ca. 1915-1940) MH1 Iraq MH1

deputies and Senate in November that 'unified military and political plans for the redemption of Palestine' should be adopted; the idea was already unrealistic before the end of the year. Units in Palestine and Jordan were visited repeatedly by the Regent, who did more than the ministers of his bewildered and irresolute Government to inspire such national effort as was possible. The nominal and absentee 'Government of all Palestine' announced by the Mufti, Hajj Amin—an irritant certain to envenom inter-Arab relations—was recognized by 'Iraq to please the Egyptians.

3. *PLUS ÇA CHANGE . . .*

The general elections were carried out four days after the first truce in Palestine had become effective, and when Parliament met on 21 June the resignation of Muḥammad al-Ṣadr's Ministry was offered and accepted; it had possessed little authority, had failed to restore order save by imposing martial law, had neglected current administration, had allowed an alarming financial deterioration, and now bequeathed a disheartening legacy at home and abroad.

The Regent's choice of a successor fell unexpectedly upon a statesman formerly prominent but, through long residence in Europe, now in imperfect touch with current politics: Muzaḥim al-Pachachi. He claimed to be of no party and selected a Cabinet of long-familiar figures; Muṣṭafā al-'Umari was to serve at Interior, 'Ali Mumtaz at Finance and Supply, Muḥammad Ḥasan al-Kubba at Justice, Baṣṣam at Defence, Jalal Baban at Works and Social Affairs, Rawi at Education, and a single newcomer, 'Abd al-Wahhab Mirjan, a young Hilla landowner, at Economics. 'Ali Haydar Sulayman, a Beirut-educated Kurdish deputy from Ruwanduz, who had been interned in 1941, relieved Jalal Baban in Social Affairs in August. These ministers, whose appointment showed once more the small part played by party affiliations in the making of Ministries, were with changes to remain in office for half a year, and could achieve something but not much towards redressing 'Iraq's present misfortunes of penury, insecurity, and foreign entanglement.

The finances of the State went from bad to worse. No budget for 1948–9 was submitted until the end of the financial year; normal revenues fell off through bad trade, another bad harvest, tax evasion, and feeble administration; and a certain deficit on the year's work could not prevent the allotment to the Army of nearly 40 per cent. of available funds, and a substantial contribution for the care of the Palestine refugees. Oil royalties were halved by the stoppage of the Haifa pipeline, which, whatever the resulting losses to the Treasury, no Cabinet would dare to reopen in spite of approaches made by the British, French, and American Governments

1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

652 and by the Company itself; the Ministry and the parties, on the contrary, launched a demand for higher royalties on such oil as was still exported, and negotiations with the 'Iraq Petroleum Company on this and other issues[1] were begun. A loan from Egypt was discussed and a visit received from Ḥafiḍh 'Afifi Pasha; another internal loan was proposed but not issued; and late in the year experts of the International Bank, to whom application for a Development Loan had been made, were welcomed in Baghdad. An extended scarce currency agreement concluded with the British Government in July 1948 allotted $25 million for a twelve-month period. An import licensing system, intended to relieve the highly adverse trade balance and exchange position, was imposed in the autumn. With all this, the Treasury remained empty, was subjected to abnormal demands by the Army, and, without hope of paying its debts, faced the further necessity to import and distribute grain. Reductions in officialdom, a partial standstill in public works, royalty advances from the I.P.C., were expedients which barely maintained its solvency. The stronger remedies proposed by 'Ali Mumtaz were not supported by his colleagues, and he resigned. The depression and general indigence led to food riots in Baghdad, Baṣra, Kirkuk, Arbil, and Khaniqin, and to strikes which included one among the oil workers and another among railwaymen. The contribution of these conditions to the political restlessness of 1948–9 was considerable.

648x Meanwhile a large part of the Army remained in Palestine and Jordan. To restart active operations was altogether impracticable; but to recall the forces would have clashed dangerously with the emotional patriotism of the students who, having suffered no inconvenience from the war, pressed by demonstrations for further fighting and especially for help to the still-engaged Egyptian Army. The Palestine position was indeed the greatest of Muzaḥim's problems, and not least by its exposure of the sad disunity of the League in its first severe trial; the Arab States' varying attitudes to the war and the truce, to armistice proposals, to a unified military command, to the Mufti's absurd 'Government of all Palestine' and to Jordan's administration of eastern Palestine, showed how little of unity save its bare façade had survived. Nor did unanimity exist even at home; the pro-Mufti and pro-Hashimite groups could not agree; realists and visionaries saw the whole Palestine issue with different eyes; the problem of the refugees, indifferent to some, cried aloud to others; the Kurds, and not they

[1] The other demands were for the payment of royalties, expressed in 'shillings (gold)', at the free-market conversion rate of gold as opposed to the Bank of England rate (p. 211): 'Iraqi participation in the enterprise: and the allotment of more and higher posts in it to 'Iraqis.

1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

668 Muslims) were condemned to death and, this time, executed amid
661 the angry protests of the world's Communist press; another suffered the same fate in May. The Central Committee and records of the Communist Party were, it was claimed, located and disrupted, and the Government were satisfied that the back of the movement was at last broken. Lesser offenders against the State—or, as the malicious murmured, against the Prime Minister—received varying sentences. Kamil al-Chadirchi was sent to prison for four months. Demonstrations on the anniversary of the Portsmouth Treaty were strictly controlled, but led nevertheless to some rioting and many arrests. The procedures of martial law worked with less friction during the year, but Nuri felt still unable, in such times, to restore a normal régime. In spite of alarming rumours in the spring the return of Mullā Muṣṭafā from Russia and his expected invasion of 'Iraq were still delayed.

648 Relations with Great Britain, which in 1948 had deteriorated more over Palestine than over the Treaty issue, and most of all over the British refusal to provide arms, improved in 1949 with a less Anglophobe Ministry and with the resumption of the supply of modern weapons to the Army as soon as it had left Palestine. Visits to London were paid by the Regent, the Prime Minister, and ministers during the year, loans were gladly received and British experts recruited; but it remained inconceivable that any younger politician, or indeed any party except the Prime Minister's, should not, by conviction or mere habit or 'patriotic' duty, blame Great Britain for all the evils of the State.

652 If a substantial reassertion of Government authority was one of the Pasha's achievements in his tenth premiership, he was able also to prevent further financial deterioration. The rate of annual deficit was checked, borrowing for current needs was avoided, and after a precarious year the latter months of 1949 showed less anxious prospects. A budget for 1949–50, balancing at ID 25 million of revenue and expenditure, was produced without excessive delay and provided for enhanced Customs revenues and for some economies in administration. Proposals made for higher taxation or for greater retrenchment were, for political reasons, not pursued, and the trade and economic position, in spite of a good 1949 harvest which permitted the resumption of grain exports, remained unfavourable; but military expenditure on account of Palestine ended in July, and help was forthcoming from the sale of Government stores and from oil royalties received in advance. The promise of loans from London and from the International Bank for development purposes was obtained by negotiations in Europe in the summer of 1949, and an advance of £3 million from the 'Iraq Petroleum Company was offered conditionally upon the

1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

reopening of the Haifa pipeline; but this to 'Iraqi ministers (whatever their own views as expressed in private) was a political impossibility, and the loan was withheld. The dinar followed the pound sterling in its devaluation. The National Bank of 'Iraq opened its doors on 1 July 1949 and assumed charge of the note issue from the Currency Board which, now disappearing, had given 'Iraq good service for twenty years.

Successful extraction of 'Iraq from its costly, dangerous, and ineffective position in Palestine was by now urgently necessary, and the bellicose enthusiasm of the last days of the Pachachi Ministry gave no lead towards a reasonable policy. Militarily, the war was lost and over; politically, the need was to save for the Palestine Arabs as much as possible from an Israel now firmly established and possibly expansionist. Nuri Pasha was prepared to accept Partition in the form proposed in November 1947, but not as modified by later Jewish conquests. He postulated an Arab Jerusalem, a disarmed Israel, an internationalized Haifa, and the repatriation of the refugees. These terms were unobtainable; and a visit by Madfa'i to Arab capitals to secure unity in demanding them revealed disunity instead, and could not prevent one Arab State after another signing separate armistices with Israel and going their separate ways. By March the Prime Minister saw the position as hopeless; by April the removal of 'Iraqi troops had begun, by July it was complete, and the reabsorption of the army into 'Iraq and its distribution to peace-time stations was carried out without mishap. It was thereafter 'Iraqi policy to shun the Palestine Conciliation Commission at Lausanne, and to hope for an internationally imposed settlement more tolerable than the present. The nation stood alone with Jordan in demanding an all-Arab Jerusalem but joined other States in November in their approach to Washington to compel Israel to carry out the 1947 territorial arrangements which the Lausanne protocol of May 1949 confirmed.

With Palestine lost and its lessons partly learned, and Greater Syria—the *bête noire* of Egypt, Sa'udi Arabia, and two-thirds of Syria itself—now a dead issue save in the tenacious mind of King 'Abdullah, 'Iraqi thoughts turned again to the unity of the Fertile Crescent, or at least of 'Iraq with neighbouring Syria. A memorable booklet, *The Warning of Palestine*, published by Musā al-'Alami, and popular enthusiasm for the young Faysal II when he passed through Syria in 1948, had brought the old project again into prominence. The coup d'état of Colonel Ḥusni Za'im in Damascus on 30 March removed a chief opponent of the plan, President Shukri Quwatli, and Za'im's need of support might lead him, it was thought, to welcome a fraternal 'Iraq. But a rapid visit by Nuri Pasha to Damascus produced only a strong mutual antipathy;

1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

a Kurdish deputy from Zakho with long parliamentary experience: Jamil al-Urfali and Khalil Kunna, an internee of 1941 days but now related by marriage with Nuri Sa'id.

The Suwaydi policy was announced as one of Arab fraternity, closer relations with other eastern Powers, internal and legal reform, and industrial and economic development. In fact the year 1950 was one of marked material improvement; the financial year 1949–50, itself better than its predecessor, had ended with a smaller deficit and during 1950 the Treasury began to refill. Considerable economies were made in the costs of administration, elsewhere than in the social services. New taxation and Customs revenue began to be productive, and by the end of the year the Minister of Finance could announce that the bad times were over; and in fact the financial year 1950–1 was to end, thanks to increased oil royalties, with comfortable balances in both current and capital works budgets. The loss, nevertheless, of Jewish skill and enterprise in the field of trade and banking, and the new and onerous obligations under the Banking Law of January 1950, proved economically a handicap. More import licences could not at present be allowed and stocks in the country remained short. Prices of imports, including food, rose with the outbreak of the Korean war. The harvest of 1950 was good in spite of disastrous floods and a phenomenal hurricane at Basra in May; the value of exports nearly doubled as compared with 1949, and greatly increased oil revenues were now in imminent prospect (p. 365). A new hard currency agreement was made with Great Britain in August 1950, and negotiations reopened shortly afterwards for its prolongation or amendment. A substantial loan in dollars was granted by the International Bank in July towards the Tharthar scheme (p. 370) and another by London in sterling for railway works already in progress.

The Suwaydi and its successor the eleventh Sa'idi Ministries found the Arab inter-statal position no less baffling than before. In addition to the normal clashes of interest and sentiment between the nations, special features of embarrassment were present in the fact of Israeli establishment and consolidation, the disposal of eastern Palestine, the usurpation of power in Syria (where a third coup d'état early in 1950 removed Colonel Hinawi to install Colonel Shishakli), and in the strained relations between Egypt and Great Britain arising from their unfruitful negotiations. No decisive steps were taken towards union with Syria in 1950, though the Syrian Prime Minister visited Baghdad during the year; the 'Iraqi attitude was one of 'We are ready, whenever you are. . . .!' The prime cause of the country's uneasy position in the League was her support of Jordan, with whose ruler further visits were

1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

opposition leaders of various records and tendencies—Ṭaha al-Hashimi, Muzahim al-Pachachi, Muḥammad Riḍhā al-Shabibi, Naṣrat al-Farsi, 'Abd al-Hadi al-Dhahir, Ja'far Ḥamandi, and Ṣādiq Baṣṣam—were drawing together towards a fragile but imposing Popular Front whose formation with a vague programme they announced towards the middle of 1951. The National Democrat Party returned to full activity during 1950. There seemed, however, no reason why, with his parliamentary majority and with a personal authority which for years past had exceeded that of any other 'Iraqi, Nuri Sa'id should not, subject to unforeseeable changes and chances, remain in power as long as his health and restless nature might permit. In the last days of 1950 he brought 'Umar Nadhmi, Muḥammad Ḥasan al-Kubba, and Baṣṣam to the Cabinet as Ministers without portfolio, appointed 'Abd al-Majid Maḥmud, the Director of the Agricultural Bank, to the Ministry of Economics, moved Dhiya' Ja'far to Works, and retained 'Abd al-Wahhab Mirjan at Finance. But no real coalition had emerged, and internal politics showed no sign of rising above the habitual strife of rival personalities. A formidable range of unsolved problems, inter-Arab and international, political and financial, confronted Nuri Sa'id, none more conspicuously than those of Israel and the Palestine refugees, revision of the 1930 Treaty, and the extraction of greater oil profits. To these the veteran statesman now turned.

King Faysal II, whose fifteenth birthday fell on 2 May 1950, had completed his preparatory school days in England and since the spring of 1949 had been a happy and successful Harrow schoolboy. He was to attain his majority on 2 May 1953. His family had acquired a house near Staines where the Queen Mother 'Aliya spent most of the year. Her health, however, began to cause alarm in 1949 and after a long illness and operation she returned home to die in Baghdad in September 1950, aged only thirty-nine; a tragic loss to the King and to her devoted brother, the Regent.

4. WEALTH OF A NATION

There have been references on earlier pages to the serious position of the State finances in the period 1947–9 and to the substantial recovery therefrom by the end of 1950. It could be foreseen by the latter date that, so far from financial stringency, the resources at the Government's disposal would in future be ample not only for normal purposes of the public services as hitherto conceived but also for an expanding programme of development. Provided that control of expenditure were maintained as efficiently as it had been (except in 1948) in the past, which there was no reason to doubt: that the probity and efficiency of Government personnel did not deteriorate: that the efforts made to perfect the

1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

assessment and collection of the main customary sources of revenue —Customs and Excise, taxation on natural commodities, the tobacco monopoly, income and property taxes—were continued with the full use of improved records, techniques, and expert advice: it was probable that, even apart from the expected oil revenues, the position of the Treasury need not again cause anxiety. From this should follow the liquidation of Government debts and loans, the better housing and payment of the Administration itself, and the possibility of a gratifying expansion of the social services.

The estimates for 1950–1 allotted, out of a total ordinary expenditure of ID 24 million, 30 per cent. to the Army and R.I.A.F., 16 per cent. to education, 13 to general administration purposes, 11 to the Police, 8 to health services, and 22 in all to other departments and functions. Capital works expenditure in that year was to amount to just under ID 4 million.

Receipts from the territory's greatest single source of wealth, its oil deposits and the industry developing them, had since their first appearance normally been allotted to capital development. This rule, partly broken in lean times, was reinforced by the structure of the Development Board set up in 1950 under a law which called for the diversion to it of all revenues from oil.[1] These receipts, amounting to less than ID 4 million in 1949 and little more than 6 million in 1950, would, it was already clear, be more than doubled, more than quadrupled, in future years (p. 376). The division of the State estimates into an ordinary and a capital-works budget ceased with the establishment of the Development Board.

The Board, disliked by some 'Iraqis as an irremovable Government-within-Government, seemed to others and to most foreign observers to offer hopes of a continuity, efficiency, and freedom from political considerations which had scarcely existed before.[2] It consisted of eight members, the Prime Minister and Minister of Finance of the time, and six non-official salaried members to be named by Royal Irada and to hold office for five years. Three of these were to be expert in Finance, Irrigation, and another (unspecified) field and, in defiance of anti-foreign prejudice, a British Secretary-General and Finance expert, Sir E. Miller, and an American irrigation engineer were recruited. The Board, in which Arshad al-'Umari seemed likely to be the leading figure, was in

[1] This was modified in 1952 by amending legislation which provided for the Board's retention of 70 per cent. of oil revenues and the allotment of 30 per cent. to 'general revenues': an arrangement which wisely permitted the devolution to provincial authorities of many smaller development works and services.

[2] The Board, however, was soon under attack by part of the press, irresponsible and malicious as ever, for having failed in a few weeks to 'raise the standard of life of the masses'.

1: Longrigg G-4, 5 (ca. 1915-1940) MH1 Iraq MH1

652 1951 establishing its programme for the ensuing five years and
647 allotting an expenditure of some ID 155 million[1] within that period; but it became apparent soon afterwards that revenues in excess of this would, under revised oil agreements (p. 376) be available. It was at this stage clear to all that the acquisition of this copious revenue, which in the absence of some suicidal folly or grave misfortune would accrue punctually and reliably for many years, must completely transform 'Iraq's economy and rate of evolution. Its history indeed from 1951 onwards should be that of a territory extraordinarily favoured in all that appertains to, or can flow from, the resources at the disposal of its Government. Its curse had for centuries been poverty; thanks to its discovered and exploited oil deposits, it stood now at the threshold of an era of abundant wealth; and this must, besides its blessings, bring accompanying responsibilities, stresses and dangers, both moral and economic.

439 The territory's immediate trade balance, which future opulence
[457] would doubtless affect, still showed in 1951 its habitual deficit. This was compensated partly by drawing upon the war-time sterling balances, and partly by invisible items as of old. The country's imports were, as ever, principally those of cotton, woollen, and silk textiles: iron, steel, and machinery: electrical goods: vehicles: tea, coffee, and sugar: chemicals, cement, and timber. Nearly half of these were provided by Great Britain, with India, the United States, and Belgium as other main suppliers and to a lesser extent Italy, Holland, and France; Germany and Japan had disappeared from the list of providers. Exports, which the country's evolution had left little changed over many years, were still those almost exclusively of its agricultural and natural products. Exported barley amounted to a yearly average of some 250,000 tons, wheat was shipped occasionally but irregularly—and not at all between 1940 and 1949; maize, millet, and oil-seeds (cotton, sesame, and linseed) were usually available in small quantities. The co-ordinating authority for all grain exports was the para-statal Grain Board and, working with it, an Agricultural Export and Import Company. Dates, to the important yearly extent of some 250,000 tons, were dispatched to more than forty countries. Cotton had disappeared after 1941, but crept back into the export list in 1947. Other items in the slight volume of exports were animals driven to the Levant countries, wool sent to France and America, and hides and skins, gums and gall-nuts consigned to various countries. Hopes that tobacco might be added to this list depended upon improvement in the structure and products of the local tobacco industry. New

[1] The provision for 1951 was to be (in thousands of dinars) 9,364: of 1952, 20,460: of 1953, 28,390: of 1954, 31,600: of 1955, 32,335: of 1956, 33,225.

2: Dowson G-5 (1929-30) 1932 MHI Iraq MHI

solely to the productive regeneration of the estate, should soon prove a profitable investment. If the accompanying returns of Budgetary Revenue and Expenditure during the nine years 1921-29 are referred to, it will be seen how small a sum, both absolutely and relatively, the Government has been able so far to allot to land development services. And

TABLE VII. TOTAL BUDGETARY EXPENDITURE, 1921-1929

Nature of Service	Expenditure in lakhs of rupees	Percentage of total expenditure
General National Charges*	325·5	6·9
Finance	619·4	13·1
Interior	1,068·3	22·7
Health	221·9	4·7
Defence	980·1	20·9
Justice	125·2	2·6
Education	223·2	5·0
Communications and works ..	680·6	14·5
Lands Services†	454·0	9·6
Total ..	4,698·2	100·0

*Civil List of H.M. the King, Parliament, Council of Ministers, Comptroller and Auditor-General, Ministry of Foreign Affairs, Public Debt and Pensions, Antiquities and Census Departments.

†Departments of Irrigation, Agriculture, Veterinary Service, Land Survey, Tapu, State Domains and Ministerial Services of the Ministry of Irrigation and Agriculture during its existence.

necessarily only a modicum of that sum could be utilised for capital improvements. If expenditure on capital development continues to be limited to what can be spared from current resources, it is to be feared that the economic revival of the country must be indefinitely retarded.

TABLE VIII. TOTAL BUDGETARY REVENUE, 1921-1929

Nature of Revenue	Revenue in lakhs of rupees	Percentage of total revenue
Direct Revenues from land*	1,619·3	32·7
Customs and Excise	2,248·4	45·4
Post and Telegraph Receipts ..	287·1	5·8
Other revenues	795·7	16·1
Total ..	4,950·5	100·0

*Land revenue, animal tax, receipts of land services, mines, rents of Government property, etc.

2. Three Spheres of Reform

2. In the northern Rainfall Zone the effects of past neglect are less obvious and the problem of agricultural development less intricate owing to this area being predominantly independent of irrigation: but otherwise there is just as great a need for a steady programme of agrarian reform here as in the South.

The three great obstacles to the agricultural development, and, therefore, to the economic advance of el 'Iraq may be summarised as:

in the south (*a*) the absence of an adequate irrigation system, and throughout the country

(*b*) the rude methods of cultivation and stock-keeping practised, and

(*c*) the chaotic state of land tenure.

2: Dowson G-5 (1929-30) 1932 MHI Iraq MHI
Egypt MR1

any solid economic advance in el 'Iraq. The third is the introduction and maintenance of a simple, secure and equitable land tenure, which term should be understood to include an even and readily met revenue demand. This report is only directly concerned with the last need: but in studying it, its inter-relation to the other two must be continuously kept in mind. No development of the country's agricultural resources can expect to be successful which does not take all these three needs into consideration together.

3. Comparison with Egypt

3. During the progress of my inquiry comparisons were frequently instituted with Egypt, a country with many parallels to el 'Iraq both in its history and its natural conditions. Owing to the courtesy of the Egyptian Government I am able to compare in Table X the respective positions on certain salient points of el 'Iraq in 1929 and of Egypt in successive decades from 1882 onwards. It will be noted that during the last fifty years Egypt has more than doubled her population, added 50 per cent. to her cropped area, quadrupled her trade, and her budget, built up a substantial budgetary reserve, and largely absorbed her original external debt.

TABLE X. COMPARATIVE FIGURES, EL 'IRAQ AND EGYPT

		EL 'IRAQ	EGYPT					
		1929	1882	1890	1900	1910	1920	1929
Population in millions		2·8	6·8	8·2	10·1	11·8	13·2	14·4
Gross cultivable area, sq. km.		90,000	32,000					
Area cropped yearly, sq. km.		?10,000	?24,000*	27,000*	30,000*	32,000*	34,000*	36,000*
Imports	in lakhs of rupees	980	1,100	1,100	1,900	3,200	14,000	7,200
Exports		360	1,800	1,700	2,400	4,000	11,800	7,800
Re-exports		510†	14	40	80	60	350	190
Land Revenue		168	680‡	700‡	600‡	700‡	700‡	720‡
Customs Revenue		274	80	190	330	480	1,370	1,620
Total Budgetary Revenue		370	1,300	1,650	1,630	2,260	4,700	5,790
Total Budgetary Expenditure		360	1,230	1,560	1,500	2,340	4,000	5,690
Budgetary Reserve Fund				200	1,150	790	2,370	5,540
Debt§			10,900	13,100	13,000	13,100	12,900	12,400

*From ½ to ⅓ cropped twice. Net area cultivated in 1929 was 23,000 sq. km.

†Goods in transit, not included in imports.

‡Yield maintained constant on re-assessment following revenue settlement. Fluctuations due to remissions to unwatered land followed by extensions of irrigation.

§Mostly held in Egypt now.

Egypt is more favourably situated geographically than el 'Iraq; while Mahommed Ali Pasha did much to initiate early in the last century the reform of her land tenure which has proceeded since. And it will be seen that even fifty years ago Egypt was considerably more populous and wealthier than el 'Iraq is to-day. But el 'Iraq is by no means devoid of advantages also. She has Egypt's established success before her. Her cultivable area is larger and more diverse, so that she is in a better position to develop a varied export trade. She is free of unproductive debt and can devote all funds not absorbed by current needs, to productive purposes. And her petroliferous deposits provide her with special financial aid at the most useful moment. So that a comparable advance to that made by Egypt may be hoped for, if a comparable effort can be made.

The unavoidably lengthy duration of a general settlement of rights to land in el 'Iraq has been emphasised several times in this report: although no precise estimate of the period required is practicable in the

3: Clark S-5 (1950) 1951 MH1 Iraq MH1

658 which the Government have been prepared to find money for education is shown by the following table of national educational expenditure compared with total budget expenditure:

[652] EXPENDITURE ON EDUCATION

Year	*For all purposes*	*For all education*	*Per cent of education to all purposes*
	£	£	
1920–21	5,556,574	130,360	2.35
1930–31	3,994,337	294,262	7.37
1938–39	5,469,813	708,056	12.94
1939–40	6,369,148	810,477	12.72
1940–41	7,144,910	848,168	11.87
1941–42	7,701,178	855,540	11.11
1942–43	10,620,822	1,131,414	10.65
1943–44	13,749,321	1,515,542	11.02
1944–45	15,484,752	1,335,475	8.62
1945–46	17,563,230	1,611,843	9.18
1946–47	18,428,567	1,737,604	9.43
1947–48	18,742,657	2,157,315	11.51
1948–49	21,947,994	2,572,625	11.72
1949–50	24,095,300	3,783,309	15.70

When one attempts to compare present national expenditure on education with what it would cost to finance compulsory education for all children, however, it cannot be suggested with even the most realistic optimism that there is much prospect of the money being available for some time to come. It is estimated that, at the present time, the cost of providing primary education is £8 per pupil per year. Thus the cost of providing compulsory primary education for the 750,000 children of primary school age, even at the existing level, would amount to considerably more than £6,000,000 per annum, i.e., probably twice as much as the total current educational budget. And this estimate does not take into account the cost of providing the new schools, of bringing existing school buildings up to better standards and of training the many more teachers who would be necessary. It also ignores the fact of the rapidly growing school population.

For this reason many responsible educators, when confronted with the cost, feel that no serious advance in the direction of compulsory education can be contemplated. This may or may not be true. There is always a need for financial realism, but there

3: Clark S-5 (1950)1951 MH1 Iraq MH1

as a means of spreading the burden of local educational provision equitably amongst the community.

This will create a dual or complementary system of educational finance, partly national and partly local. The most satisfactory system of fairly distributing educational expenditure as between the national and the local budgets would be the devising of a grants system. Under this grants system each Provincial Education Committee would annually receive monies from the national education budget to supplement the taxes and other contributions raised locally. If the amount of the annual Ministry of Education grant for each province could, subject to the limitations of the national budget, be increased—for a time at any rate—proportionately to the local monies raised, this would probably act as a strong incentive to local self-help.

The Financing of School Building. Under existing arrangements for the public use of royalties received from the oil companies, money from this important and steadily increasing source is wisely devoted to the Capital Works Budget. In the past it has apparently not been considered possible to devote monies from this Capital Works Budget on any large scale to capital works for educational purposes such as schools and teachers' houses. Indeed, as during the last financial year this Capital Works Budget showed a deficit, it would have been difficult to impose educational demands on it. As, however, it is understood that the revenue from oil royalties is likely to increase three-fold during the next few years, a shrewd Minister of Education with an eye to future progress towards compulsory education would doubtless do his utmost to persuade Parliament to earmark a fair share of this additional revenue for capital works of an educational nature.

Financing Material Inducements to School Attendance. Although during the first period of this short-term policy of advance towards compulsory education the task will be mainly that of coping with existing and potential demands for admission into primary schools, some financial provision will need to be made for assisting the children of the very low income groups. It would be desirable, therefore, if powers could be given to the Provincial Education Committees to devote part of the money derived from local taxes or contributions towards the provision of meals and clothes for really needy children. This would enable the Provincial Education Committees to gain experience of what will be an important aspect of educational administration when the time comes to compel the attendance at school of the many children whose parents are too poor to take advantage of educational provision unless it is accompanied by material assistance.

5:al Dalli S-5 (no date)1954 MHI Iraq MHI

PROBLEMS OF INDUSTRIAL ENTERPRISE IN IRAQ

ABDUL GHANI AL DALLI ☆

433 Modern industry in Iraq, as in many other underdeveloped countries, has made significant progress in recent years and especially since the end of World War II. It is not within the scope of this article to discuss the causes of this movement in their relation to over-all industrial development and industrialisation in Iraq. The discussion in this paper will, on the whole, be restricted to the problems of industrial enterprise in the private sector of the economy. Consequently, Government industrial plans, as well as the oil industry have not been discussed. Likewise, the paper does not deal with the wider regional aspects of modern industry. As far as Iraq is concerned, the main causes for the progress of industry are to be found in the abundance of natural wealth, especially in the form of oil, the relative plentifulness of cheap labour in urban centers, the hardships suffered by the population during the war owing to the shortage of essential industrial products, the exceptional profits made during the war by proprietors of such modern industries as then existed (e.g. woollen textiles, cigarettes, soap, etc.), the accumulation of large sums of liquid capital in relatively few hands as a result of war and post-war inflation, and finally, the positively helpful attitude of Government towards industrial development.

654 The Iraqi Government has always tried to encourage industry, and
652 has granted it various exemptions from taxation under the Law for the Encouragement of Industry, passed in 1929, and its amendments. In 1946 - 47, however, it took a more effective step in the creation of the Industrial Bank, with a capital of I.D. 500,000 wholly contributed by the Government. The Bank's function is to grant loans for the establishment of new industries and the expansion and improvement of existing industries, to participate in joint-stock companies formed for industrial purposes, to start new industrial enterprises on its own account if need be, and to offer various services connected with the import of machinery, materials, and the export

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654 of products.[1] Financial assistance thus provided by the Government,
652 together with the new Law for the Encouragement of Industry issued in 1950, proved of great potency in the development of industry. The capital of the Industrial Bank was increased in 1952, to I.D. 3,000,000 of which I.D. 1,200,000 have already been paid up.
433 These and other measures, such as increases in custom duties
656 and the restriction or prohibition of certain industrial imports, have produced marked progress in the establishment of new industries and the re-equipment and expansion of old ones, especially since the end of World War II.[2] This can be seen from the following table:

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Development of Large-Scale Industry in Iraq 1948 - 1952

Year (1st April - 31st March)	Capital Invested I.D. 1000	Value of Annual Output I.D. 1000	Number of Employees	Wages paid annually I.D. 1000
(Seven large Industries)				
1948 - 49	3,183	1,403	1649	
1949 - 50	3,194	1,555	2626	333
1950 - 51	4,206	2,631	3443	406
1951 - 52	4,415	3,600	3837	486
(Ten large Industries)[3] 1951 - 52	4,835	4,424	4533	599

1 Industrial Bank, Compilation of Laws, Regulations, etc. Government Press, Baghdad 1951.

2 For pre-World War II industrial development in Iraq see:- *A Handbook of Mesopotamia*, H.M.S.O., 1917. *A Report on the Progress of Iraq*, by H.M. Government to the League of Nations. H.M.S.O.,1931. *The Iraq Directory*, Baghdad, 1935 (English Edition). *The Economic Organisation of Iraq* (in Arabic), Editor Said B. Himadeh, Beirut, 1937.

3 See the *Annual Report of the Department of Industry 1951-52*, Ministry of National Economy, Baghdad. (In Arabic)
The Report of the National Bank of Iraq, 1949-50, p. 46 (in Arabic) states that national production of cement, beer, vegetable oil, soap, leather., etc., has been substituted for similar imports with the result that value of imports fell from I.D. 2,984,000 in 1948 to I.D. 1,298,000 in 1950, and the deficit in the balance of trade was reduced by I.D. 1,686,000 due to this reason alone during the same period.

5:al Dalli S-5 (no date)1954 MHI Iraq MHI

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the development of industry sketched above.[1] Industries which existed then or have come into existence since have benefited considerably from these concessions. But private enterprise remained shy of industrial activity until the establishment of the Industrial Bank in 1946-47. Through this Bank, the State showed itself not only willing to forgo some revenue in the interests of industry, but to provide cash, and to share in the risks of industry. As mentioned above, the Industrial Bank could not only give loans (against real or personal security), but also participate in the capital of joint stock companies. Its greatest value in my view lies in the fact that it can become a founder or promoter of industries and thus lead the industrial community and the investing public into new fields. However, the Bank was handicapped in the early stages, by the inadequacy of the financial resources at its disposal and the absence of economic and technical studies by which the feasibility of proposed industrial schemes might be judged. Moreover, the Bank lacked, and to some extent still lacks, a qualified technical staff. It has often to rely on the judgement of the Board of Directors or the advice of specialized Government departments such as the Directorate General of Industry and the Directorate General of Agriculture, which are not always fully equipped for the task. The Bank has continually asked for scientific surveys to be made of the mineral, agricultural and animal resources of the country. It has also called for an integrated economic plan covering industry, agriculture and other economic activities, in which the Bank, like other institutions, will play its particular role.[2] There has been strong resistance on the part of the Board of Directors to the allocation of money for technical staff or technical studies by experts, and often when money was allocated, it could not be spent because the Board disagreed on the qualifications of such experts (foreign or national) or the need for inviting them to study particular problems. However, as years passed and the financial position of the Bank improved, a section for the study of industrial schemes was formed and members of it were charged with the study of certain problems at home or abroad. A number of ad hoc committees of specialists available in Iraq were set up to study and report on proposed industrial schemes. Contact was estab-

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[1] No provision was made, however, for direct subsidies to industry, and no legal preference in government contracts was given to home industry.

[2] See First Annual Report, Industrial Bank 1946-47/1947-48, Baghdad. (Arabic)

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654 lished with various Government departments, and data were collected, classified and sometimes published for the guidance of would-be entrepreneurs. A number of foreign experts were invited to study either particular schemes (such as paper, sugar, artificial silk fibre, the exploitation of salt, etc.) or to concern themselves with industrial development in general, and make recommendations for improvements in existing industries or for the establish-
652 ment of new industries. In addition to the absence of a general investment policy and planning, and the lack of economic and technical data to guide the activities of the Bank, there was, in the years 1947-50 the handicap of inadequate financial resources. When the Bank opened for business in 1946-47 its nominal capital, in accordance with a decision taken early in 1940, was fixed at I. D. 500,000. This figure was out of proportion with the changed level of prices and incomes, and the expansion of industry which had taken place meanwhile. Furthermore as the capital of the Bank was provided by the Treasury as a loan, it was up to the Treasury to decide what amounts to pay and when to pay them, and its decisions often did not coincide with the Bank's requirements either for funds or for making forward plans.

This situation, however, has completely changed as a result of increased Government revenue from oil in accordance with the Oil Agreement of 1951. The capital of the Bank was raised to I.D. 1,000,000 in 1951 and to I.D. 3,000,000 in 1952. Earlier, in 1948, 1949, and 1950, the Bank was forced to borrow from the reserves of certain Government departments, e.g. the Directorate General of Awqaf, Government Staff Guarantee Fund, and from other banks (especially the National Bank of Iraq). This form of borrowing was found to be less costly and more elastic than borrowing from the public. Another important source of capital which has developed in recent years is the annual net profits of the Bank. These have risen from I.D. 4,066 in 1948-49, to I.D. 7,745 in 1949-50, to I.D. 60,591 in 1950-51, and to I.D. 99,463 in 1951-52. The average rate of loans granted to industry in the last five years has been about I.D. 150,000 annually,[1] with an average loan period of three to four years. Hence a sum of I.D. 40,000 to I.D. 50,000 is repaid annually to the Bank. The paid-up capital of the Bank stood at I.D. 1,200,000

[1] The rate of interest was reduced from 7 per cent per annum to 5 per cent by decision of the Ministry of Finance in 1951.

5:al Dalli S-5 (no date)1954 MHI Iraq MHI

in 1952, but it can safely count on an annual payment by the Treasury on capital account of no less than I.D. 200,000. The Bank therefore can be said to be now in a sufficiently liquid position to meet any legitimate demands made upon it.

The International Bank Mission[1] has recommended that "the Bank's capital should be used primarily as a revolving fund. The Bank should generally dispose of its industrial shares whenever an enterprise becomes profitable and, therefore, capable of attracting more private capital." This view is no doubt inspired by the shortage of capital from which the Industrial Bank, as well as other financial institutions, had suffered before the Oil Agreement of 1951. It is clear that the Bank must not, however, be hasty in disposing of shares if it is to perform its important function of encouraging enterprises and capital investment in industry. This can be seen more clearly from the following considerations. First, most of the industrial concerns in which the Bank participates are still under construction (a process which requires two to four years in Iraq), and the few which have gone into production and distributed profits have only done so in the last three or four years. Any large sell-out by the Bank, which holds between 25 and 40 per cent of their shares, is likely to shake confidence in these concerns and create unforseen difficulties for them. Secondly, there is no organised stock exchange in Iraq and the market for shares is so limited that any large sale of shares may lead to a fall in prices which would hit small investors and benefit speculators, while it might harm the credit of the Bank. Thirdly, the stake which the Government now has in the capital of so many industrial concerns helps to reassure private enterprise that it will not retreat from the generous policy it has so far adopted towards industry. Another important consideration in this respect is that Government participation in industry through the Bank gives it a useful instrument, if it wishes to make use of it, for the supervision and control of industry.[2] It seems obvious therefore that the Bank cannot easily use its capital as a revolving fund.

(2) The Supply of Raw Materials and Power: Iraq is potentially

[1] See the International Bank of Reconstruction and Development. *The Economic Development of Iraq*, Report by a Mission of the Bank. Washington 1952. Annex D. p. 295.

[2] During the past five years, the Bank has made, only one sale, 3,000 shares out of 24,000 shares it then held in the Iraq Cement Co., in 1951, by public auction.

the Law for the Encouragement of Industry are granted irrespective of the locality in which the Industry is to be established or the type of industry embarked upon. Industries established in crowded, highly developed areas are given the same advantages as those established in remote, less developed districts. The manufacturer of producer's goods is treated equally with the manufacturer of consumers' goods and luxury goods. The criteria upon which an industry's claim to benefits is judged stand in need of drastic revaluation.

The limitation of the market in Iraq not only restricts the possibilities of large-scale development of most industries but it affords opportunities for monopoly control by one or two plants in certain fields. The danger of monopoly and exorbitant prices is already in sight in such industries as cement, beer, cotton and woollen textiles. The encouragement of new enterprise in these fields, or the relaxation of state protection to allow healthy competition, or direct intervention by the state to fix prices in relation to costs, is necessary to restrict monopoly power in the interests of the consumer and to preserve public confidence in industry. It is only on the basis of such confidence that the government can continue to give support and material aid to industry. The Iraqi Government has ample powers for dealing with the abuses of monopoly under the provisions of the Law for the Organisation of Economic Life of 1941.

The government can also extend its control over industry and prevent abuses by proper amendments to the law governing joint-stock companies. There is need to restrict the grant of free-shares or "water" shares to promotors, the creation of founders' shares with special powers of voting or percentage of profits, the interlocking of directorships, and abuses on the part of management in respect of purchases of materials and equipment, and sales of finished products. In particular, managers of joint-stock companies should be prohibited from trading on their own account especially in goods related to firms under their management.

The Industrial Bank has often been urged, as a shareholder in many industries, and with its representative on their boards, to exercise control over their price and sales policies. This suggestion derives from the prestige which the Bank has acquired in relation to industrial development. It has undoubtedly helped to iron out many difficulties, to improve management, and prevent abuses. But it is going too far to suppose that the Bank can actual-

652 ly control the price, sales and purchases policies of such indus-
473 tries. In the first place, though the Bank holds a large proportion of the capital (varying between 20 and 40 per cent) of every industry, it is always in the minority on the Boards of Directors ; moreover it appoints its own representatives and is excluded from taking part in the election of other directors by the articles of association of the companies concerned. This course has been deliberately taken so as to ensure private enterprise against arbitrary action on the part of the government. Secondly, the Bank itself is, in the last analysis, a profit seeking institution and therefore it is not likely to stand in the way of any measures likely to increase profits, unless they are of an obviously oppressive or abusive nature. Thirdly, the main duty of the Bank is to promote industry. Promotion and control are not always compatible.

656 For these reasons the State has to look for other ways, and to
475 use more fully the legal powers which it already possesses, for effective control over industry. The fact that it owns a share in industry through the Industrial Bank puts it in a better position to exercise such control. But to rely mainly on the Industrial Bank for this purpose is to escape responsibility.

6:Ireland S-5 (no date)1937 MH1 Iraq MH1

of honour (*namūs*).[1] Capital punishment for such murders, which were frequent and usually premeditated and brutal, cut across tribal justice. The Political Officers, on their side, found such customs abhorrent and contrary to their ideas of justice.[2] Their natural tendency was to override the decisions of the tribal *majlis* and to impose imprisonment or death penalties. The problem was partially solved by the gradual recognition of the tribal point of view by the British authorities, but the modification of tribal custom has taken longer. At the present, it still constitutes one of the major problems in the administration of the tribal areas of 'Iraq.

175* 727* 628 681

The Revenue Department

No single task of greater magnitude faced the British administrators of the Occupied Territories than that of organizing the Revenue Department. The collection and administration of revenue in accordance with the Turkish system but freed from abuse and corruption were not the only problems. Associated problems of land tenure, of revenue assessment, of *Auqāf* administration, in all their strangeness and complexity, had to be studied and solved. Responsibility for other activities, such as Excise and Customs, control of Hostile Trading Concerns, of the Public Debt, and of Education had to be assumed. To render the task more difficult, papers and records where they had not been destroyed, were out of date and, with the exception of land-registration, in confusion, requiring weeks of careful sorting.[3] Responsible officials had fled, and although

175* 727* 652

[1] See Thomas, Bertram, *Alarms and Excursions in Arabia*, 1931, pp. 86-7.

[2] *Admin. Report*, 1918: Hilla Division, pp. 126, 133; *Monthly Rep't*, *December*, 1919: Qurna Division, p. 59; Ibid., *August*, 1919: Qurna Division, p. 74.

[3] Cf. the excellent unsigned article (by C. C. Garbett, I.C.S.): *Turkish Rule and British Administration in Mesopotamia* in *Quarterly Review*, Vol. CCXXX, pp. 403 ff. The claim made there (p. 411), however, that demand-statements for the annual tax on date trees as prepared by the Turks, were found intact and collection of this as well as other revenue were begun within a few days of the occupation of Basra, is not borne out by the records of the period, as *Revenue Admin. Report, January-March*, 1915 (confidential), nor by personal testimony of the officials on the spot at the time.

6:Ireland S-5 (no date)1937 MHI Iraq MHI

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important aid was rendered by residents of Basra and 'Amāra and later by the discovery of old registers, the essential information concerning the complicated and often inconsistent system had to be gleaned by investigation and experience.

British Military authorities had at first no time to deal with Revenue or Fiscal matters except Customs. With the arrival, however, of Mr. Dobbs in January, 1915, as Revenue Commissioner, the work was taken in hand. The taxes demanded by the Turks had to be ascertained, the proportion paid before the arrival of the Expeditionary Force had to be discovered, and a collecting agency improvised.[1] Methods of assessment had to be learned. In the first months, the process of learning was by trial and error, tempered by the desire to win the confidence and goodwill of the Arabs and to impress them with the difference between the Turkish and the British methods of government. In some sections, as around 'Amāra, the revenue was farmed out to great landowners on terms which kept them loyal to the British. In other sections it was remitted in part,[2] and in still others, entirely, as at Qurna in 1915.[3] In some districts the tax on date trees alone was collected, and this in small proportion to former Turkish demands.[4] In other districts where the landowners were obviously paying on too few trees, the number was raised, with the alternative that owners might demand a recount. No such demands occurred. Considering the difficulties, it is not surprising that only Rs. 20,000 (approximately £1400) in land revenue was collected in the five months of the first fiscal year (ending March 31st, 1915) following the British occupation.[5]

Full development of the Revenue Department was to come after Baghdad wilayet had been taken over.[6] Nevertheless,

[1] *Revenue Administration Report*, 1915, p. 1. [2] Ibid. [3] Ibid.
[4] *P.O. Reports*, 1916-1917: *Hammar Lake Area*, 1916-1917, p. 57.
[5] *Revenue Admin. Report*, 1915.
[6] The Turkish system and the British methods in the various aspects of the Revenue Department will be described in greater detail in a later section dealing with the development of the Administration from 1917 onwards. *Infra*, pp. 112 ff.

6:Ireland S-5 (no date)1937 MHl Iraq MHl

by October, 1916, when Mr. Dobbs was invalided to India, a working administrative machinery had been set up, not only for revenue but also for other branches of administration which had been taken under the wing of the Revenue Department. A certain amount of confidence in the British regime had been gained. Data and information on revenue, land tenure and other subjects had been embodied for future guidance in a series of notes which for clarity of judgment and succinctness have probably never been surpassed in the history of 'Iraq Administration.

Administration of Tribal Areas

To the establishment of a government for the tribal areas, both Sir Percy Cox and Mr. Dobbs gave particular attention. The greatest need of the moment was for peace and order in tribal areas and for the restriction of all assistance to the Turks from the Arabs, in order that the Expeditionary Force might devote itself to its main objective of defeating the Turks.

Both Sir Percy Cox and Mr. Dobbs believed that these conditions might be attained by making use of the natural leaders of the tribes: the shaikhs. The alternative of direct government, either by a British or Arab staff, was calculated to be contrary to immediate ends if not impossible, due to the lack of a suitable staff and to the semi-barbaric character of the tribes. Their efforts were, therefore, directed towards building up forms of administration and of justice which, while conforming as far as possible to Western standards, were based on tribal organization, on recognition of tribal habits and customs and on support of the shaikhs as instruments of government.

The policy adopted was, in reality, an adaptation of the system so successfully developed and applied in Baluchistan by Sir Robert Sandeman, of whom it has been said: 'Every great

6:Ireland S-5 (no date)1937 MHl Iraq MHl

Officer, Assistant Political Officers administered subdivisions or districts. A Deputy Civil Commissioner assumed control of the Basra divisions until September, 1918, when the two wilayets, largely for political reasons, were merged and the administration directed from Baghdad.

Political Control and Revenue Administration

As at Basra, military exigencies largely controlled the situation. General Maude's own attitude to the Civil Administration had been in accordance with his views as to the necessity of establishing the unquestioned authority of the military authorities rather than with the spirit of the proclamation issued in his name after the fall of Baghdad. The appointment, often without reference to the Chief Political Officer, of military officials, many of whom knew nothing of Arab conditions or of Arabic, to civil administrative positions, gave no suggestion that he took seriously the statement 'I am commanded to invite you, through your Nobles and Elders and Representatives, to participate in the management of your civil affairs in collaboration with the Political Representatives of Great Britain who accompany the British Army'.[1] The Government by proclamation, with its harassing and sometimes unnecessary regulations, gave as little hint to the people of Baghdad as earlier regulations had given to the people of Basra, that the armies had 'not come into your Cities and Lands as Conquerors or enemies but as Liberators'.[2]

Nevertheless, Sir Percy Cox, concerned with the future as well as the present, deemed it essential to extend political control throughout the wilayet, as much as permitted by the military authorities and by General Maude's centralization of authority into his own hands. Such control could be best attained, as had been discovered in Basra Wilayet, by extending

[1] *Proclamations*, 1914-19, Proc. No. 9, p. 5. Text: App. I.
[2] Ibid., p. 6.

6:Ireland S-5 (no date)1937 MHI Iraq MHI

the administration and collection of revenue, which, in the eyes of the tribes, was regarded as a sign of government authority, similarly as revenue payment was considered an outward sign of their submission. Much of the confidence engendered by the Political Officers in Basra Wilayet had been the result of their revenue activities,[1] which included far more than the collection of taxes following the enforced assumption by the Revenue Board of a far wider range of responsibilities than merely financial duties. In addition, the extension of land-revenue collections in kind from the fertile areas of the middle Euphrates would produce local foodstuffs for the army and thereby release much precious tonnage. Hence, after the fall of Baghdad, Sir Percy Cox's chief efforts were directed, not only to the establishment of friendly relations with leading dignitaries, but also, through the First Revenue Officer, to the collection of information as to the customary rates of demand; the sorting of a mass of papers; the foundation of a Revenue system capable of extension; the inceptions of departments such as *Auqāf*, Education, etc., and the actual collection of revenue in Baghdad and surrounding districts.[2] The complexities and inconsistencies of the Turkish Revenue system, to which reference has already been made, proved, as in Basra Wilayet, one of the greatest obstacles in the way of a rapid establishment in Baghdad Wilayet of a system based on its principles.

The Turkish Revenue System

Under the Turks, general revenues in each wilayet had been collected under the authority of the *Daftardar* (Provincial Director of Finance), either directly or through departments. Among the taxes collected directly were land revenue in its various aspects, *koda* (animal head-tax), *tamattū* (income or

[1] 'I have been long convinced that Revenue work is the most important part of their duties.' Deputy Civil Commissioner in *Admin. Report, Basrah*, 1917, p. 8.

[2] *Administration Report, Revenue Board, Baghdad, March 22 to December 31, 1917* (Baghdad, 1918), p. 1 (hereafter *Revenue Report*, 1917).

6:Ireland S-5 (no date)1937 MHI Iraq MHI

wedded, triumphed. The erection of the Court was sanctioned. Owing to financial and other reasons, it was not instituted, however, until December 24th, 1925.[1]

The transfer of function and authority in financial matters from the British Administration to the National Government, perhaps the most complicated and difficult task of all, was hampered not only by the abnormal conditions resulting from the Insurrection, but also by the inheritance of a tangled web of financial transaction between the Military and the Civil authorities of the previous regime. This legacy conspired to unsettle the Ministry's operations even after the Cairo Conference, in March, 1921, at which the Finance Minister, Sasūn Effendi, himself taking part, had presumably settled the issues at stake among the various British authorities.[2]

An outstanding difficulty also lay in the fact that all matters pertaining to Finance were not placed under the supervision of the Ministry. This non-centralization of authority may have been due to the desire to establish checks on possible unsound administration. It is more probable that it came about as the result of the inherited British system which in this case had been taken over without great alteration. Following the system in vogue in India, the Civil Administration had introduced two secretariats, those of Revenue and of Finance, and eventually a third, that of Commerce, to deal with financial matters.[3] Upon the establishment of the provisional Government, the duties of the Finance Secretary were vested in the Minister of

[1] Royal *'Irāda* for formation of a Court of Cassation, December 24th, 1925: *Compilation of Laws and Regulations from 1st January, 1925, to 31st December, 1925* (Baghdad, 1926), p. 36.

[2] For résumé of financial arrangements reached at the Cairo Conference and their effect on 'Iraq finances, see *Note on the Administration of the Public Finances of 'Iraq, 1st April, to November, 1924* (Baghdad, 1925), pp. 11-18.

[3] For the manifold duties of the Revenue Department, see *supra*, p. 119. The Finance Department had dealt with all expenditure, currency and resource matters, Budget estimates, accounts and audits. The Secretary for Commerce had been also Chief Collector of Customs until the abolition of the Secretaryship, August, 1920, brought Customs under the Finance Department. See *Note on Organization of Civil Admin. of Mesp.*, April, 1920.

6:Ireland S-5 (no date)1937 MHl Iraq MHl

Finance, but those of the Revenue Secretary were absorbed by the Minister of Interior, and those of the Commerce Secretary by the Minister of Commerce.[1] Not until March, 1931, did Excise pass to the Ministry of Finance, and not until October, 1921, following the decision of the Council of State, September 28th, did land revenue, *koda* and other financial duties of the Ministry of Interior come under the control of the Minister of Finance. The result was that while the initial organization approximated that of the original Finance Department, the progressive absorption of additional duties, with the attendant periodic reorganization, produced considerable confusion particularly in the *Liwās*.

In addition to the difficulties of reorganization, the major problem of the Finance Minister was economy, all the more urgent in the face of the unconsidered enthusiasm of some of the Council members, who were ready to remake 'Iraq in the twinkling of an eye. The Ministry had to face a serious loss of revenue attendant on the Insurrection as well as on the fall of prices. The destruction of crops and of gardens and the inability to enforce payments in certain areas, as in the Muntafiq,[2] resulted in a deficit of 61 lacs of rupees of revenue from agricultural sources alone, while the almost complete stoppage of commercial traffic on the railways, together with the damage to its equipment, produced a deficit of nearly 55 lacs in the Railway Accounts.[3] The cost, however, of reorganization and the enforced assumption of the costly programmes already initiated under the policy of the Civil Administration,[4] much of which was a 'fruitless burden upon the revenue,[5] largely negatived the expected saving for the year 1920-1. Expenditures, in fact, exceeded receipts by 183 lacs, although a

[1] See Table IV.
[2] *Admin. Report, Muntafiq*, 1921, pp. 16-18, App. E, F; ibid., Report of Gharrāf Area, pp. 46-8; ibid., Report of Sūq ash-Shuyūkh District, pp. 57-8, App. A.
[3] *Admin. Report*, 1920-1922, p. 24.
[4] *Supra*, Ch. vii.
[5] *Admin. Report*, 1920-1922, p. 22.

6:Ireland S-5 (no date)1937 MH1 Iraq MH1

175* 642* 727* 652 surplus of 5 lacs was reported when items properly chargeable to the two regimes existing in the financial year had been taken into consideration.[1]

The future was not brightened by the necessity of providing immediately for defence and for the maintenance of order, on a scale larger than anticipated at first, due to the unexpectedly rapid withdrawal of British troops. Defence forces in 1921-2, exclusive of Levies, the cost of which was assumed by H.M. Government, were to cost Rs. 127,09,455,[2] whereas in the previous year they had cost Rs. 88,50,000 inclusive of Levies.[3]

175* 642* 727* 701 Although Defence Forces for the time being took the form of Levies and Police, the Council had provided, on January 6th, 1921, the nucleus of an 'Iraq General Staff, with Major J. I. Eadie as temporary Adviser until the arrival of Col. P. C. Joyce in April. The creation of a national army was stimulated by the necessity of absorbing as far as possible, the large and articulate group of unemployed and discontented ex-officers from the Turkish army. The problem was further aggravated by the acute jealousy between the ex-Sharifian and ex-Turkish officers. Many of the latter would take no office and publicly predicted the early return of the Turks.

The entire question of the development of the defence forces, together with the question of a ruler for 'Iraq were among the principal questions brought before the Cairo Conference in March, 1921.

[1] *Admin. Report*, 1920-1922, p. 23.
[2] *Budget of 'Iraq Government*, 1921-1922 (Baghdad, 1921), Ch. viA, viB, vii, pp. 10, 12.
[3] *Admin. Report*, 1920-1922, p. 25.

6:Ireland S-5 (no date)1937 MHI Iraq MHI

647 As a result, officials, even those nominally responsible, have tended to become mere head clerks in their own departments, while Ministers have found themselves overburdened with work. The British Advisers, especially before October, 1932, were able to assist in reducing the burden of the Ministers but elsewhere the administration was retarded in pace and was lowered in quality.

[563] Among officials belonging to minority communities, as the Jews and Christians, the lack of security and the desire to avoid responsibility has been doubly apparent as the result of widespread opposition to the employment of any but 'Iraqis professing Islam. This opposition was evinced as early as 1921, when Jews and Christians were included in the outcry against the employment of foreigners. Although members of these communities have been employed especially in posts attached to the Financial and Technical departments and have even occupied Ministerial positions,[1] the tendency seems to have been to retard their advancement, as evinced in June, 1936, when promotions of Jewish employees as made by the Director of the 'Iraq Government Railway were cancelled by order of the Minister,[2] or to eliminate them as far as possible from Government service, a trend which has been more apparent in recent years.

Finance

652 In the development of 'Iraq's financial system from 1925, three major problems presented themselves: the reorganization of the land-revenue system including its purification from abuses and the development of land-settlement, the equalization of the

[1] Sasûn Effendi Haskail, a Jew, and Yûsuf Ghanima, a Christian, served repeatedly as Ministers of Finance.

[2] So vehement was the outcry in the vernacular press over the promotion of the Jewish employees that not only were the promotions cancelled, but disciplinary action had to be taken by the Bureau of Press and Propaganda and an order issued that no promotions should be made without prior sanction of the Minister. See *Great Britain and the East*, July 2nd, 16th, 1936.

6:Ireland S-5 (no date)1937 MH1 Iraq MH1

incidence of taxation, and the provision of financial means, not only for the Government's essential services but also for the discharge of the obligations laid on it by the various treaties and by the Financial Agreements.

Judged by its ability to meet this last problem, the financial history of the 'Iraq Government may be regarded as comparatively successful. Budget deficits occurred as in 1921 and 1922 and in the years from 1929 to 1931,[1] but the financial crises, including that of 1930-1 were safely weathered without resort to foreign loans. The accumulated deficits were reduced by the conversion of oil revenue, of which the first instalment was received in August, 1931,[2] from the Capital Development Works Scheme to which they had been originally assigned. In addition, the 'Iraq Government's share of the Ottoman Public Debt,[3] set at a nominal total of L.T.8,358,126,[4] was practically extinguished by an agreement, October, 1928, by which Ottoman Debt securities to the value of £1,228,000 sterling were

[1] Summary of financial results, 1921-2 to 1931-2, in lacs of rupees:

	Expenditure	*Revenue*	*Deficit*	*Surplus*
1921–22	572·13	528·25	43·88	—
1922–23	485·82	474·67	11·15	—
1923–24	242·26	509·41	—	85·15
1924–25	464·85	527·33	—	62·48
1925–26	513·38	581·02	—	67·64
1926–27	536·72	567·00	—	30·28
1927–28	569·93	590·97	—	21·04
1928–29	599·93	594·44	4·57	—
1929–30	576·66	574·61	2·05	—
1930–31	464·57	511·58	47·01	—
1931–32	481·74	509·19	17·45	—
	63,88·47	60,68·47	126·11	266·59
		Net Surplus	140·48	

[2] The 'Iraq Petroleum Company's payments to the 'Iraq Government amounted to £866,814 in 1931-32, and to £524,397 in 1932-33. In 1932-33, the British Oil Development Company's payments amounted to £140,000. Cf. Empson, C.: *Economic Conditions in 'Iraq* (Dept. of Overseas Trade, No. 559, 1933).

[3] 'Iraq accepted the obligation by the Financial Agreement, Article XVII.

[4] This sum was set by the Ottoman Public Debt Commission in 1926, under the authority of Article 49 of the Treaty of Lausanne.

6:Ireland S-5 (no date)1937 MHl Iraq MHl

652 handed over to the Debt Commission. The balance of £383,009 sterling was to be spread over a period of seven years.

Examination of the method of balancing the budgets and of meeting the demands of the Ottoman Debt bondholders indicates, however, that the results have been secured by the wholesale reduction of salaries and by the reduction of appropriations to government services which vitally concern the regeneration of 'Iraq: Irrigation, Agriculture and Public Works. In 1923, salaries of 'Iraqi officials were reduced by amounts varying from 2½ to 25 per cent on the recommendation of the Economies Committee of 1922.[1] In March, 1926, following recommendations by Mr. Hilton Young,[2] additional reductions were made, while in November, 1930, following the financial crises arising from the fall in agricultural prices, salaries were further reduced by amounts varying from 5 to 8 per cent.[3] The result was that official salaries fell out of proportion to the cost of living; much dissatisfaction was produced, particularly since British officials under contract suffered no such reductions; and encouragement was given to the return to other methods of supplementing salaries which, prevalent under the Ottoman regime, had been severely discouraged by the British Advisers and Administrative Inspectors.

651 In the assessment and collection of land revenue, progress had been undoubtedly made by early Finance Ministers and their Advisers in removing some of the defects inherent in the Turkish system as adapted by Revenue Officers of the Civil Administration. Nevertheless, in 1925, the primary objectives before the 'Iraq Government were still those which had faced the Civil Administration in 1919.[4] These objectives were:

1. To organize the means of revenue collection, as, for example, the elimination of the tax-farmers, and to

[1] *Report of the Economies Committee*, 1922 (Confidential), (Baghdad, 1922).
[2] *Report of Financial Commission*, 1925.
[3] Young, Sir E. Hilton, *Reports on Economic Conditions and Loan Policy* (Baghdad, 1930).
[4] *Supra*, Ch. vi.

7: International Bank N. S-4 (1951) 1952 MH1 Iraq MH1

as 60,000 people are engaged in industrial production (other than oil), virtually all of these are employed in small undertakings where the work is largely done by hand and productivity is accordingly quite low. Probably only about 2,000 are working in what might be characterized as modern industrial plants.

Fortunately prospective increases in government revenues from oil now make it possible for the government to undertake a large-scale program for the development of the country. Past investments in the oil industry will in the future yield large dividends in the form of a rapidly increasing production of petroleum. In accordance with an agreement reached in August 1951, subject to ratification by Parliament, the three internationally-owned oil companies operating in Iraq have undertaken to raise oil output, which amounted to only about six million tons in 1950, to 30 million tons per year by the end of 1955 and to turn over to the Iraqi government half of the profits before the deduction of taxes. On this basis it is anticipated that, over the next five years, the government may receive net revenues amounting to as much as 214 million dinars from oil alone. Under the terms of a law passed in 1950 these revenues will be available to finance development. They will be assigned to the Development Board, an autonomous agency established in 1950 to ensure greater continuity in the planning and implementation of development programs.

In the past, financial stringencies have severely limited public expenditures. The government has often had difficulty in making both ends meet. Severe economy has been the rule. Development outlays had to be kept small; government salaries were not raised in accordance with the increasing cost of living; and local administration was starved of funds. In the future the situation will be reversed. The principal task will be to find ways and means of spending rapidly increasing revenues in a manner which will contribute most effectively to the permanent development of the country. It is with this task in view that the Mission has drawn up its recommendations.

Any program for realizing the economic potentialities of the country should be broad in conception and well balanced. Investment outlays in dams and irrigation works, transport facilities and industrial plants must be complemented by increased expenditures

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

452 probably amounted to only ID 2,300,000 of which about 70 percent represented urban mortgages. Of the latter the greater part probably consisted of mortgages on buildings other than houses.

●[652] At the beginning of 1950 a government Mortgage Bank began operations. Only ID 100,000 of an authorized capital of ID 1,000,000 has, however, been paid in; and the Bank has had to supplement its resources by borrowing. Moreover, it can make loans only for a maximum of four years and up to ID 2,000. To facilitate an expansion of its operations, the Mission suggests that the Development Board provide funds sufficient to increase its actual capital to about ID 1,500,000 and that the Bank be authorized to extend the duration of its mortgages to at least 15 years where warranted.

344 The Mission has given no special attention to the need for public buildings for which the Development Board has budgeted ID 3,350,000 in its five-year program. Undoubtedly the construction of new buildings for the accommodation of government offices is in certain cases desirable, for existing government buildings are for the most part scattered, overcrowded, poorly lighted and equipped and therefore not conducive to working efficiency. As already indicated, the new railway building in Baghdad should provide some space for government offices.

Water and Electricity Supply

364 365 With respect to community facilities, the most urgent tasks appear to be the installation of sewage systems for the major cities, and the provision of safe water supplies and electricity.

It is suggested that a start be made with a sewage system in Baghdad, since the rising level of the subsoil waters makes the need of this city most acute. A plan for such a system has already been prepared by consultants to the government. The initial step might be to carry it out for that portion of the city on the east bank of the Tigris. It would be useless, however, to proceed unless there is a determination to make connections with the system compulsory for all property owners who are supplied with municipal water.

A safe water supply is, as was pointed out earlier, one of the keys to the health problem. While a number of cities and towns now have a reasonably safe water supply, the situation in the great

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

654* 457 part of their income in this form and there will be some net gain of foreign exchange by the National Bank.

The effect of the development program on the economy as a whole, however, has to be borne in mind. A general rise in the level of prices and wages will tend to increase consumption at the expense of savings. At the same time, there will be considerable incentive to make more investment outside the development program than in the past. Thus, quite apart from the effect of the program itself, there will be some pressure to expand imports. Whether this pressure could be sufficiently strong to cause an expansion of imports by more than the amount of foreign exchange used to finance the development program is uncertain, but the possibility exists. It will be important, therefore, to avoid any further pressure on the payments position by an excessive expansion of credit to business or by financing a large budget deficit through bank credit.

654* 652 As long as ordinary government expenditures not immediately related to development are kept down and tax income maintained, there should be no serious danger of ordinary budget deficits. In fact, as national income rises as a result of increased development expenditures, ordinary revenues will probably rise more rapidly than ordinary expenditure. The government, however, will have to incur some expenditures which were, in the past, covered by income accruing from oil. Now that this income has been earmarked for the purposes of development, the deficiency has to be made up from ordinary revenue. It may, therefore, be necessary in the first few years for the government to borrow from the Development Board a part of the funds accruing to them, repayment being made when ordinary revenues begin to rise substantially. This should not interfere unduly with development, as the pace of actual expenditure on development is likely to be slow initially.

Measures to curb credit expansion may prove more difficult as long as the banks are extraordinarily liquid. Statutory reserve requirements would have to be greatly increased to permit effective credit controls. The private banks, most of which are foreign-owned, have, in the past, however, concentrated almost exclusively on the financing of trade, particularly foreign trade. Even if increased opportunities arise in the future, they may show little dis-

International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

position to finance investment expenditures. The National Bank should operate essentially as a banker for the commercial banks and therefore should not finance long-term investment. To discourage credit expansion on the basis of the larger foreign income which will accrue from oil, the Mission suggests that, instead of selling sterling receipts to the National Bank, the government segregate them in a special account in London apart from the country's regular foreign exchange reserves until such time as they are spent abroad or the dinar equivalent is spent in Iraq.

Tax Reform

Total tax revenues will probably not need to be increased provided any temporary ordinary budget deficit can be met by short-term borrowing of idle funds at the disposal of the Development Board. The only exception might be taxation to pay part of the cost of raising government salaries. On the other hand, some revision in the tax structure to provide a more equitable apportionment of the burden would be desirable. In common with many other underdeveloped countries Iraq relies strongly on indirect taxes which bear heavily on consumers without taking into account capacity to pay. Thus in the last three fiscal years indirect taxes contributed about 82 percent of all tax receipts and 71.5 percent of all budget income, while direct taxes accounted for only 18 percent of all tax revenues and 13 percent of total government receipts. While drastic changes in the tax structure may not be feasible, some decrease in the burden of indirect taxes appears desirable. There might well be a reduction in import duties on some essential goods such as sugar and cheap cotton and rayon textiles, offset, perhaps, by an excise tax on luxuries. Likewise it may be desirable to decrease and gradually abolish, except in its application to exports, the so-called *istihlak* tax which is levied on produce brought to market and at a rate varying in recent years between 10 and 12½ percent of approximate market prices. Except for the partial incidence of this tax, agriculture in Iraq is hardly taxed at all. The income tax which bears very heavily on the salaried classes, whose income is already comparatively low, does not apply to income from either agricultural land or urban property. Agricultural land in private hands has not been taxed since 1936 when a land and water

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

491 494 centers such as Amara and Kut are linked neither by rail nor by all-weather roads to Basra and Baghdad.

504 497 In Basra, Iraq possesses an excellent port capable of handling a considerable increase in traffic. Upcountry cargo into and out of the port is handled almost wholly by railway, for inland river traffic has declined greatly in importance owing to shallow water and other impediments to navigation.

The port and the railways are each run by an autonomous administration operating under a separate budget.

VII. Money and Banking

453

The banking system consists of the National Bank, five commercial banks, a number of private banks or *sarrafs*, the post office savings bank, and three state-owned longer-term financing institutions, the Industrial Bank, the Agricultural Bank and the Mortgage Bank.

● 452 453 The National Bank succeeded the Iraq Currency Board as the currency-issuing authority in 1949. Iraq is a member of the sterling area, so that its currency is backed principally by sterling assets in London. Although the law permits the currency to be backed up to 30 percent by Iraqi government securities, as of March 31, 1951, the total amount of currency in circulation was more than covered by sterling assets. Aside from its note-issuing function, the Bank is charged with the administration of foreign exchange control and the supervision of the banking system in accordance with a bank control law which became effective at the beginning of 1950. This law requires banks to keep the equivalent of 15 percent of their time and demand deposits as a reserve with the National Bank and to keep 50 percent of these deposits in the form of cash and investments in Iraq. The National Bank is empowered to reduce the reserve requirement to 10 percent and to vary the second between 30 and 70 percent. Since the commercial banks have had no need for recourse to the National Bank in order to replenish their cash resources, the Bank's loans and advances have remained very small. As of March 31, 1951, they

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

stood at only ID 650,000, consisting almost wholly of advances to the Baghdad Water Board and the Industrial, Agricultural and Mortgage Banks. Almost all of the remaining assets of the Banking Department consist of Iraqi government securities valued at ID 5,490,000.[3]

There are five commercial banks in Iraq, of which three are foreign banks. Of the two Iraqi banks, one, the Rafidain Bank, was organized and is controlled by the government and serves as the depository of government funds. These banks confine themselves principally to the short-term financing of foreign and domestic trade and have always kept themselves very liquid. Thus, as of March 31, 1951, their total liquid assets, including notes and coin, current accounts abroad, discounts and davances, but excluding the statutory 15 percent reserve maintained with the National Bank, amounted to about 87 percent of their current and short-term liabilities, and even 70 percent when advances which are primarily short-term are kept out of account.[4] The operations of the commercial banks are supplemented by the *sarrafs* which are principally engaged in financing small traders. Their number has been drastically reduced in the last year or two, owing partly to the exodus of the Jews and partly to their failure to meet the requirements of the bank control law that they submit their accounts and divorce their banking and trading operations.

The total foreign exchange assets of the banking system are quite considerable. As of March 31, 1951, they amounted to about ID 50,400,000. Total holdings tend to fluctuate primarily because of the influence of harvests upon exports. Thus a harvest failure in 1947, followed by another bad harvest in 1948, as well as the effect of the outbreak of war with Israel in 1948, were instrumental in reducing holdings from ID 64,900,000 at the end of 1946 to ID 43,400,000 in September 1949. As the result of two successive good harvests, reserves then rose in the ensuing year and a half by ID 7,100,000.

Part of Iraq's sterling assets have been frozen since the war, releases being governed by a five-year agreement effec-

[3] See statement of the National Bank's assets and liabilities in Table II in Appendix.

[4] For a consolidated statement of the principal assets and liabilities of the commercial banks, see Table III in Appendix.

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

for subsequent programming. Expenditures for the five-year period were allocated by broad fields as follows (in dinars):[5]

Water storage and irrigation schemes	30,044,000
Roads	15,826,000
Buildings, including hospitals and schools	12,618,000
Miscellaneous projects	6,216,000
Administrative expenditures	970,000
Unprogrammed reserve	29,401,000

Because of the brief time devoted to its preparation, this program will necessarily undergo modification as more detailed study is given to requirements and the cost of individual projects and as some of the over-all allocations are programmed in detail.

The magnitude of this projected outlay is in startling contrast to the financial stringency which has characterized public expenditures in the past. The government has had great difficulty in making both ends meet. Severe economy has been the rule. Development outlays were pared; government salaries were not increased despite the increasing cost of living; and local administration was starved of funds.

Government Budgets

The trend of government finances is indicated in Table 16.

It will be noted that, despite economies and tax increases, the government's total budget showed substantial deficit in 1948-49 and 1949-50, primarily because of the bad harvests in 1947 and 1948 and the effects of the war with Israel. Of the government's principal autonomous enterprises, the railways also ran considerable deficits on capital account which were defrayed only by using reserve funds, by borrowing ID 1,000,000 from the government and contracting a loan of ID 3,000,000 through the Export Credits Guaranty Department of the British Government. The Iraqi government borrowed at home to meet its own needs, its domestic debt rising from ID 4,500,000 on March 31, 1948, to ID 10,800,000 on March 31, 1951. Borrowing had to be limited, however, because the market for government securities was virtually restricted to the banking system. As of March 31, 1951, the National Bank and the commercial banks held ID 9,200,000 of the domestic debt.

[5] For a more detailed breakdown, see Table V in Appendix.

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

TABLE 16

652

BUDGETS OF THE GOVERNMENT AND PRINCIPAL GOVERNMENT ENTERPRISES

(In millions of dinars)

	1947-48	1948-49	1949-50	1950-51 (provisional)	1951-52[1] (estimate)
GOVERNMENT BUDGET					
Ordinary					
Revenues	21.2	21.2	23.8	26.1	28.2
Expenditures	23.0	28.1	26.6	25.9	29.1[2]
Balance	−1.8	−6.9	−2.8	+0.2	−0.9
Capital					
Revenues	4.8	2.5	3.8	5.1	—
Expenditures	3.6	3.9	3.4	3.8	—
Balance	+1.2	−1.4	+0.4	+1.3	—
Total					
Revenues	26.0	23.7	27.6	31.2	28.2
Expenditures	26.6	32.0	30.0	29.7	29.1
Balance	−0.6	−8.3	−2.4	+1.5	−0.9
RAILWAYS BUDGET					
Revenues	3.8	3.6	4.0	4.0	4.2
Expenditures, (including capital)	5.3	6.4	4.8	4.3	5.2
Balance	−1.5	−2.8	−0.8	−0.3	−1.0
PORT AND FAO BAR BUDGETS					
Revenues	2.3	2.6	2.6	2.4	2.5
Expenditures, (including capital)	2.1	2.4	2.4	3.2	4.1
Balance	+0.2	+0.2	+0.2	−0.8	−1.6

[1] With the establishment of the Development Board the latter's budget has replaced the government's regular capital budget. In its 1951-52 budget, however, the government has still incorporated income from oil produced in the first quarter of the calendar year 1951 and is planning to devote this revenue to a number of projects including a government spinning and weaving mill (ID 1,000,000), a small-loans bank (ID 250,000), establishment of a National Insurance Company (ID 50,000), army buildings and equipment (ID 464,000), and the initial cost of an oil refinery (ID 250,000).

[2] Since the original approval of the budget the government has apparently issued three ordinances raising total authorized expenditures by about ID 2.7 million.

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

TABLE 17

GOVERNMENT DEBT

(in millions of dinars as of March 31)

	1948	1949	1950	1951
Domestic debt				
Treasury bills	1.5	4.6	4.3	4.8
Bonds	3.0	6.0	6.0	6.0
Total	4.5	10.6	10.3	10.8
Foreign debt	—	—	—	3.0*
Grand Total	4.5	10.6	10.3	13.8

* Contracted on behalf of the railways.

Features of Government Expenditures

Certain characteristic features of government expenditures in recent years are set forth in Table 18. Outlays on defense and police have absorbed well over one third of the total budget. On the other hand, expenditures on agriculture and irrigation which are of critical importance to the economy have been very small and in 1949-50 were even further reduced so that they represented only

TABLE 18

SOME GOVERNMENT OUTLAYS BY TYPE

(in millions of dinars)

	1948-49		1949-50		1950-51 (est.)	
	Amount	Percentage of total budget	Amount	Percentage of total budget	Amount	Percentage of total budget
Defense and police	11.4	35.6	11.1	37.0	10.9	36.7
Agriculture and irrigation	2.5	7.8	1.6	5.3	1.6	5.4
Education	2.6	8.1	2.6	8.7	3.8	12.8
Health and other social services	2.0	6.2	1.7	5.7	2.4	8.1
Public Works and housing*	1.8	5.7	1.2	4.0	2.0	6.8

* Includes expenditures of Public Works Department in the ordinary budget and expenditures on public works, including communications, but excluding irrigation, in the capital budget.

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

a little over five percent of the total. Expenditures on education, health and other social services, although still very inadequate, rose slightly so that they absorbed almost 21 percent of the total budget in 1951. Capital outlays have been extremely modest. Total new government investment outlays for civilian purposes have averaged only ID 2,700,000 annually in the period 1948-49 to 1950-51. Expenditures on public works and housing, excluding irrigation, absorbed on the average less than six percent of total government outlays in this period.

Economies have also been effected in recent years at the expense of the municipal and provincial administrations. By law, these were supposed to have assigned to them, in equal shares, the proceeds of the property and petrol taxes less the expenses of collection incurred by the central government. Actually very little of these taxes has been turned over to the local and provincial governments. For example, in the three years 1947-48 to 1949-50 the provincial administrations received only ID 175,000 out of a total of ID 2,626,000 due to them. Municipalities were similarly handicapped. The ability of local governments to carry out improvements and even to maintain existing facilities was correspondingly curtailed.

Characteristic Features of Government Revenues

The fiscal system in the past has been characterized by (1) the high proportion of revenues derived from indirect taxation, (2) light taxation of agriculture, and (3) considerable tax evasion and poor tax collection.

Indirect taxation is generally predominant in all underdeveloped countries, and Iraq is no exception. In the three-year period 1948-49 to 1950-51 indirect taxes contributed about 82 percent of all tax income and 59 percent of total budget receipts. Customs duties and excises accounted during these years for 71.5 percent of total revenues from indirect taxes, while taxes on agricultural produce, fish, and livestock brought to market (the so-called *istihlak* and *koda* taxes) contributed most of the remainder. Direct taxes—the so-called land tax, the property tax and the income tax—accounted for only 18 percent of total tax revenues and 13 percent of all government receipts. Income and surtaxes

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

652

TABLE II

Monthly Statements of the National Bank of Iraq
(In thousands of dinars)

End of Month	Consolidated Accounts of Issue and Banking Departments[1]									
	Liabilities					Assets				
	Capital & Reserves	Currency in Circulation	Current Accounts	Other Accounts	Total	Sterling	Silver	Iraq Securities	Advances[2]	Other
Oct. 1949	2,500	35,913	354	1,863	40,630	34,707	157	5,620	55	91
Dec. 1949	2,500	36,356	338	1,891	41,085	35,137	151	5,620	125	53
Mar. 1950	2,500	38,634	3,160	2,109	46,403	39,843	152	6,120	225	63
June 1950	2,500	39,282	3,930	1,871	47,583	40,859	155	6,160	353	56
Sept. 1950	2,500	37,813	4,617	2,520	47,450	40,278	161	6,160	798	53
Dec. 1950	2,500	39,096	4,877	2,685	49,159	41,885	155	6,160	910	50
Mar. 1951	2,942	40,566	3,345	1,863	48,717	41,700	154	6,160	650	53

[1] This table omits the currency held by the Banking Department, which appears in its accounts as an asset and in the Issue Department's accounts as a liability.

[2] Includes advances made to the Industrial Bank, Mortgage Bank, Baghdad Water Board. As of July 1950 advance of 1949 government share of National Bank profits also included.

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

Paper Mill

289 Iraq does not have a suitable source of material for a pulp plant at this time. The development of a paper making industry would therefore require the importation of pulp to meet its various requirements. This procedure would ordinarily be both practicable and economical; however, the world market for pulp is now very critical and may remain so for several years. It is recommended, therefore, that the paper mill be held in abeyance until an adequate supply of pulp is assured.

III. State Assistance to Industry

Financial Assistance

454 433 The widespread reluctance of private capital to venture into industry can be overcome only gradually as the profitability of industrial investment is demonstrated in various fields. In the meantime, it will be necessary for the government to furnish most of the capital for industrial development.

Plants which will require a large amount of capital and will need completely foreign management at least in their beginning may have to be financed completely by the government through the Development Board. The oil refinery and the fertilizer plant are projects which fall into this category. Other more modest undertakings will require relatively small amounts of capital and in most cases may be economically operated by Iraqi management even though some foreign technicians may be necessary. This combination lends itself to the use of private capital, which should be encouraged as much as possible by the government, by means of financial assistance where justified.

• 452 433 The Industrial Bank is now the principal agency for rendering financial assistance to the development of private industry. The Bank, which began operations in 1946, has already performed useful work in promoting industry. At the end of February 1951, it had outstanding loans totalling ID 238,650 and participations in industrial enterprises amounting to ID 629,272. It has been handicapped, however, by a shortage of funds, since the government has

7: International Bank N. S-4 (1951) 1952 MH1 Iraq MH1

paid in only ID 600,000 out of an authorized capital of ID 1,000,000. Its resources have to some extent been supplemented by borrowing ID 100,000 and ID 200,000 respectively from the Awqaf Administration and the National Bank. The Mission suggests, therefore, that the Development Board gradually supply the funds necessary to increase the Bank's capital by ID 5,000,000. The Bank would be authorized to use this sum for making loans to, and investments in, industry within the framework of an over-all program approved by the Development Board.

The Bank's capital should be used primarily as a revolving fund. The Bank should generally dispose of its industrial shares whenever an enterprise becomes profitable and, therefore, capable of attracting more private capital. Profit-making assets should be kept only to the extent necessary to create a reserve against possible losses. While the Bank should presumably show a small profit to inspire confidence in its operations, it should not retain its participation in profit-making enterprises for the sake of maximizing its profits, particularly when this limits its ability to assist other industries.

The Bank at present is understaffed. The directors pass on projects without the benefit of expert assistance, and, as a result, some phases of a project may be completely overlooked. With a shortage of staff, the transaction of business with the Bank is also time-consuming and thus discourages applicants.

The Mission recommends that, first, the Bank's staff be both increased and strengthened and, second, that it be reorganized to give greater responsibility to the head of the Industrial Schemes Section who should be a properly qualified man with broad industrial experience. Members of the Industrial Schemes Section should have thorough training and practical experience in power and mechanical engineering with special reference to industrial planning and layout, and in operations, management and control of industry with special reference to cost accounting.

Protection of Industry

The "Law for the Encouragement of Industry" enacted in 1929 was replaced by new legislation in 1950 which grants limited exemptions from income and surtaxes for four years; exemptions

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

also frequent causes for hospitalization. In 1949 there were 5,876,336 visits to health institutions for treatment.

Public Health Budget

In 1951-52, ID 2,089,180 (7.6 percent of the total budget) were allocated to health services, as compared to ID 187,672 in 1931. Because of the prevalence of endemic diseases and the constant danger of epidemics, it would not be unreasonable to spend 10 percent of the total budget on health services.

Salaries for personnel in the medical service appear to be low in relation to the cost of living, although they are not low compared to other civil service salaries. The basic salaries, exclusive of cost-of-living allowances, range from ID 5.15 a month for a dresser, to ID 25 for a doctor and ID 80 for a director-general.

Current Health Conditions

In spite of the undeniable progress in health conditions, there is need for further improvement. Definitive data are lacking on total birth and death rates, but some figures are available on the infant mortality rate, which is probably the best index of the social circumstances of an area. For Baghdad, the recorded rate in 1949 was 128 deaths per thousand births. Iraqi doctors who have worked in different parts of the country consider the rate to be about 250 per thousand, on the average, compared with about 34 deaths per thousand live births in highly developed countries.

Among the people as a whole, malaria seems to be the chief killer, especially in country districts. In the main cities the leading causes of deaths were intestinal diseases, tuberculosis and respiratory diseases. These diseases and trachoma seriously affect the ability of men and women to work efficiently and are among the major causes of low productivity of labor in Iraq. For example, candidates for the police service are frequently rejected because of defective eyesight and what is characterized as "poor physique" associated with chronic malaria, schistosomiasis, etc. About 20 percent of the young men liable for military service are found to be unfit.

Heart trouble, cancer and other organic disturbances are far outnumbered by diseases which are essentially social in origin. Most of them can be traced to lack of hygiene, poor sanitation and

7: International Bank N, S-4 (1951) 1952 MH1 Iraq MH1

362 laborers at government expense" which may be sold or leased to them in accordance with special regulations.

[152] Housing projects have been financed by allocation from the capital works budget prepared every year. The unspent balance from this allocation reverts to the general treasury. Likewise the rents paid by tenants and the fees collected for maintenance, sanitary services, water and electricity find they way back to the general treasury. The 1950-51 budget provides ID 75,000 for housing. The five-year program of the Development Board envisages an increase to ID 150,000 in 1951-52 and to ID 300,000 in each of the four succeeding years.

The Ministry's principal project is at Tel Mohamed, about seven kilometers from Baghdad, where 204 brick dwelling units had been constructed by the Ministry of Public Works in 1946 and a further 185 are now under construction. Twenty shops are also being built. Most of the houses have a bedroom, a living room, a kitchen, a water closet and one or two verandas, but 50 of the newer ones will have two bedrooms. Floor area ranges from 49 to 71 square meters and the cost from ID 268 to ID 323, excluding the cost of development and of land which is government-owned. Lots were 150 square meters for the older houses, but the newer ones are smaller.

Rentals for the first dwelling units in the Tel Mohamed Project used to be ID 2.0 a month, but this was reduced later to ID 1.5. The government supplied water and electricity at an additional charge of 500 fils a month. Based on the actual cost of construction of each unit (ID 305) a generous estimate of 20 years for the life of the structures, interest on capital investment at the rate of six percent per annum and a nominal sum of ID 10 annually for maintenance of grounds plus repairs and land rental, the economic rent for each such unit would be ID 3.0 a month—that is, if no vacancy and unforeseen circumstances occurred to reduce the income from the project. In other words, the government has to make a subsidy equal to the present rental of ID 1.5 per month, if it hopes to replace these houses at the end of their estimated life.

In addition to these units in Baghdad, the Ministry requested bids for 40 one- and two-bedroom units in Basra which it rejected because the prices were too high, mainly because bricks made in

Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East
Iraq MH1

874 ics in agricultural areas. Foreign advisers and instructors are being extensively employed. *Commercial:* secondary commercial schools in Baghdad, Mosul, Najaf, with night classes in Baghdad and Najaf. Commercial classes have been introduced into the ordinary secondary school curriculum in various cities. *Nursing and Domestic Science:* Schools of Domestic Science, Nursing, Midwifery in Baghdad. It has been proposed that instruction in the state vocational schools should be of such a standard that graduates could proceed at once to the relevant higher institutions. Other vocational establishments are the Iraq State Railways workshop training school in Baghdad and the IPC's technical training centre in Kirkuk.

873 An Institute of Fine Arts in Baghdad gives instruction in music, painting, sculpture, and drama and trains teachers in most of these subjects.

873 217 *Department of Antiquities.* The Department of Antiquities maintains an extensive programme of excavation, restoration, research and publication and has gained recognition for its work in international academic circles. It controls five museums in Baghdad, one each at Samarra and Babylon, and has recently opened one in Mosul.

Economic Survey

651 439 433 The greater part of Iraq's national revenue will soon be drawn from her oil, which represents an important fraction of the world's supply. Her general economic organization is nevertheless agronomic. Agriculture and animal husbandry practically suffice for her internal requirements of foodstuffs and provide, after oil, most of her exports.

135 Apart from oil, raw materials are sparse. There are deposits of salt, low-grade bituminous coal, gypsum, and sulphur and, in more limited quantities, of potassium nitrate, crystal quartz, sandstone, and dolomite. Building stone is found only in the 339 342 hill districts; in the alluvial plain mud and reeds are the common building materials of the poor, but houses of locally made burnt bricks are common in the towns.

185 652 [511] In 1950 a Development Board was established with the function of drawing up and, after parliamentary approval, executing a general economic and financial plan for developing the country's resources and raising the standard of living; it was to include but not be limited to projects for water conservancy, flood control, irrigation, drainage, industry, mining, and improvement of river, land, and air communications. For the execution of its programme the Board has been allocated 70 per

3:Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East
92aq MH1

cent of Iraq's oil revenues. The cost of the initial programme of the Board, as approved by Parliament, covers the years 1951–6 and is estimated at ID155,374,000. It provides for studies and research and training of Iraqi engineers and technicians; an ambitious plan for irrigation and drainage, including a number of major projects; the construction of roads, bridges, hospitals and health institutes, schools, housing for labourers and officials and public buildings; land reclamation, afforestation, agricultural research, animal husbandry; development of water-supplies, health resorts, aerodromes; industrial and mining projects. The programme of the Development Board has taken account of the report[1] of the mission of the International Bank for Reconstruction and Development, which, at the request of the Government of Iraq, visited Iraq in 1951 to review the country's economic potentialities and assist the Government to formulate a long-term programme for the further development of productive resources.

By the end of 1953 measures had been taken towards the implementation of practically every item of this programme. Of the major projects, work on the Tharthar scheme for Tigris flood control was well in hand and its completion scheduled for March 1956. The Habbaniya scheme was sufficiently advanced to permit flood control of the Euphrates; work had already begun on the barrage, which would be completed at the end of 1955. Preliminary work was in progress for the construction of dams on the rivers Diala, Lesser Zab, and Greater Zab, and schemes were under investigation for drainage and water utilization in the south and the generation of hydro-electric power. The construction of a bitumen refinery at Qaiyara, south of Mosul, was imminent and designs were complete for cement plants at Mosul and Kirkuk and a cotton textile factory of an annual capacity of 25 million square yards in Mosul.

Agriculture

Iraq is predominantly an agricultural country. It is estimated that about 80 per cent of the population derives its living directly or indirectly from the soil and, apart from oil, exported products are almost entirely agricultural. Nevertheless only some 20 per cent of the total area of the country is cultivable, and only some 36 per cent of this is actually under cultivation. The cultivable area has two main divisions: first the region to the north and east of a line running south of Mosul and Kirkuk to Khanaqin, where the rainfall is sufficient to permit the cultivation of winter crops without irrigation; and second, the

[1] IBRD, *The Economic Development of Iraq* (Baltimore, John Hopkins Press, 1952).

3:Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East
Iraq MH1

439 million in October 1947 to £43·2 million in December 1949 and £55·5 million in September 1952, and are still rising. In October 1950 the Sterling Balances Agreement was amended to the advantage of Iraq, and in July 1952 the sterling held in No. 2 Account, amounting to some £23 million, was freed from all restrictions.

Banking and Currency

652 Banks in Iraq may be classified as follows:

(1) *The National Bank of Iraq*, whose establishment was authorized in 1947 and completed in 1948. Its functions are laid down as: (*a*) to issue and administer the currency and undertake duties arising therefrom, (*b*) to undertake duties arising from international agreements, (*c*) to undertake duties relating to the control of banking and co-ordination of banking operations, (*d*) to undertake duties arising from the control of foreign exchange, (*e*) to keep the accounts of the Government, (*f*) to undertake transactions relating to Government and semi-Government loans.

(2) *Government Banks* for granting loans of special kinds, namely: Agricultural and Industrial Banks, for the encouragement of agriculture and industry, and separate banks for granting mortgages on movable and immovable property.

453 652 (3) *Commercial Banks* of which one, the Rafidain Bank, is governmental, and four are branches of foreign banks.

453 (4) *Sarrafs*—small local bankers who perform most of the functions of the commercial banks but are more rigidly restricted by law in the extent of their operations. Operating with less formality than the commercial banks, they are widely patronized by business men.

The withdrawal of the Jews from Iraq affected banking profoundly; two large commercial banks and most of the *sarrafs* closed down, with a consequent contraction in the supply of credit, so that rates of interest rose abnormally to the detriment of business. The trade in imported goods suffered particularly, since cash was not available for customs clearance. The problem was solved partly by increased domestic production, partly by the enforcement of a law for the control of banking, which compelled the commercial banks to increase their paid-up capital and reserves held in Iraq, reduce their investments abroad in favour of local investments, and increase the banking facilities afforded to businesses. In consequence commercial banks co-ordinated and expanded their activities, and the opportunities for profit encouraged new *sarrafs* to replace those who had withdrawn. A great deal of banking experience and

3:Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East
Iraq MHI

acumen has nevertheless been lost and although the situation has been partly restored, business is still less active than formerly. 453

Banking deposits in December of 1938, 1946, and subsequent years have been as follows (ID):

Year	Current Accounts	Fixed Deposits	Savings Deposits	Total
1938	1,231,130	614,928	387,447	2,233,505
1946	13,613,737	3,414,557	2,965,756	19,994,050
1947	12,543,308	2,799,008	2,719,224	18,061,541
1948	12,253,822	1,421,109*	2,302,416	15,977,347
1949	12,271,965	1,322,216	2,389,604	15,983,785
1950	12,994,226	795,361	1,980,305	15,769,892

* From 1948 onwards the fixed deposit item excludes previously included Government accounts.

(Source: Reports of National Bank of Iraq, 1947–50, p. 32.)

Currency. The currency of Iraq is based on sterling and its unit, the Iraqi dinar (ID), is equivalent to £1 sterling and is divided into 1,000 fils (singular also 'fils'). This currency replaced in 1932 the Indian currency which had been maintained under the Mandate, and was issued and administered by an Iraq Currency Board, sitting in London, until 1 July 1949, when the National Bank of Iraq took over the functions of the Board and put its own notes into circulation. 436

The circulation of currency, which in August 1939 stood at ID4,700,000, increased during the war to ID42,100,000 in September 1946. It has since, with some fluctuation, declined and in October 1952 was ID36 million.

Public Finance

Immediately before the Second World War the total state revenues amounted to some 7–8 million dinars. During and after the war there was a steep rise in expenditure: in 1942–3 the expenditure had increased to ID11·6 million, in 1947–8 to ID26·6 million, and in 1948–9, the year of the Palestine conflict, to ID32 million, after which it has declined slightly. Loans were raised to meet the consequent deficit, which a considerable increase in taxes and duties were insufficient to prevent and which in 1948–9 had risen to ID5·3 million. A contributory factor was the closure of the Haifa oil pipeline in that year; but in 1949 and 1950 the construction of a new pipeline to Tripoli more than made up the loss. In 1950–1, with increased revenue and a drop in expenditure, the budget showed a surplus for the first time in seven years, amounting to ID5·4 million. The expansion of oil revenues has been maintained by 651 652

3:Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East
Iraq MH1

651 increased exportation, made possible by the construction of a
652 new and larger pipeline and by the equal profit-sharing terms of the 1952 oil agreement, retroactive from 1 January 1951. Oil revenues have consequently become the major factor in Iraq's finances: in 1952 they exceeded the total state income of any year prior to 1950, and by 1955 will be almost twice as great as in 1952.[1] By law 70 per cent of them are assigned for capital works to the Development Board whose budget is approved by Parliament independently of the Ordinary Budget;[2] the remaining 30 per cent of the oil revenues are assigned to the Ordinary Budget for the regular operational expenses of the state. Until recently the state income depended mainly on taxation—income tax, import and export duties, taxes on agricultural and animal products, property tax, excise duties on alcohol, salt, tobacco, and petroleum products, and various stamp duties, a successive increase in most of which, particularly the indirect taxes, has characterized financial legislation throughout. With the recent expansion of oil revenues, the Government has halted the steady increase in a number of these taxes and has in some cases reduced them or is considering their reduction. At the same time most foreign debts and advances, formerly an accepted aid to balancing the budget, have been liquidated, and domestic loans have become a means merely of reducing monetary circulation and avoiding the effect of inflated state expenditure on the general economic and financial position.

The rapid increase in revenue has further encouraged greater expenditure on health, social and educational services, and relief to officials in the form of further increases in salaries, allowances and pensions, free medical treatment and other privileges and facilities. There is in fact a possible choice in the disposal of the vastly augmented state income: whether to employ it for such immediately effective measures of welfare and alleviation, which are admittedly needed and would, if inflation were avoided, gain popularity for the Government, or to devote it mainly to major capital works, whose benefits, if longer in appearing, would be securely based on a co-ordinated natural economy and remain intact even if oil revenues were for any reasons diminished or interrupted or cut off completely. Official policy and enlightened public opinion are committed firmly to the latter course.

[1] See above, p. 281.

[2] This replaces earlier legislation by which it was unsuccessfully attempted to maintain, in distinction from the Ordinary Budget, a Capital Works Budget, financed by oil royalties, oil companies' advances, Ordinary Budget surpluses, and the revenues of the Iraq Currency Board.

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Iraq MHI

511 of the people are even more primitive than their ancestors of several thousand years ago. They live on the ground in mud huts, in the shadows of the stone ruin of their ancestors' homes. They draw water by hand from wells from which water was once pulled by giant water wheels; they irrigate their tiny garden patches with hand scoops where once large canals watered thousands of acres.

871 212 Despite the progress in education, less than half the children are in school, and only half of those fortunate ones finish the primary grades. In the country as a whole, 80 per cent of the males and 95 per cent of the females are still illiterate.

These people now hope for a new life, a place in the sun again.

DEVELOPMENT PROGRAMS

651 382 The internationally-owned oil companies operating in Iraq recently have increased oil output materially and expect by 1955 to be producing at a rate five times above the 1951 level. Half of the profits before taxes will accrue to the Iraq Government, and should amount to about $600 million during the next five years.

647 654 These revenues will be assigned to the Central Development Board, an autonomous agency established to insure greater continuity in the planning and implementation of development programs. An American, Wesley Nelson, formerly Assistant Commissioner of the Bureau of Reclamation in the United States Department of Interior, is a member of the board by invitation of the Iraq Government.

FINANCING

652 654 The Board is following rather closely a development program recommended by the International Bank for Reconstruction and Development after its special mission made a detailed study of the Iraq economy at the request of the government. The cost of the suggested five-year program, beginning with fiscal 1952-53, is estimated at approximately $471.8 million to be apportioned as follows:

Project	*In Millions of Dollars*
Flood control, irrigation, and drainage	154.5
Industry	103.6
Transport and communications	86.8
Community Facilities	65.0
Agriculture and Forestry	21.0
Education	17.1
Public Health	14.0
Development Board administration, studies, etc.	4.2
Miscellaneous expenditures	5.6
	471.8

To carry out the program the Development Board would have to spend $42 million in 1952-53 and successively larger sums each year, up to a total of $140 million in 1956-57.[33]

[33] *Economic Development of Iraq*, International Bank for Reconstruction and Development, 1952, p. 63.

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COTTON IN IRAQ

The program is undoubtedly ambitious. It requires a rate of progress unprecedented for a country which for many centuries remained virtually static and which over recent decades has developed at a relatively slow pace. There is no assurance that the program can be carried out over the next five years. Yet the Mission thought it important to set up targets, even ambitious targets, toward which the country can strive. If successful, the program will bring about a profound economic and social transformation, with far-reaching repercussions.

The International Bank concludes that the country will need no further foreign loans except possibly to meet part of the hard currency needs.[34] The oil revenues will be received in the form of sterling. However, under a new agreement, the United Kingdom has undertaken to furnish sufficient dollars against sterling to cover Iraq's essential needs.

The International Bank in 1950 already had loaned $12.8 million to Iraq, primarily for flood control, irrigation, and road construction. Apparently the Bank is willing to consider further loans, but the Iraqi are not interested as long as the oil revenues continue and they are able to get sterling converted into dollars.

TECHNICAL ASSISTANCE

A number of organizations are providing technical assistance to Iraq in its development program, notably the United States Point Four Program and the United Nations' Food and Agriculture Organization.

Point Four began its program early in 1952 in such fields as cotton agronomy, farm machinery, agricultural extension and vocational education, irrigation, entomology, rural health, sanitation, and industrial development. About 25 Americans have been employed, and the number may be doubled by the end of the year. Most of the Point Four funds go for salaries; the costs of tools and materials are assumed by the local government. The specialists in Iraq obviously were chosen for their competence, practical experience, and their interest in the assignment. They are anxious to develop the most desirable means of approaching the problem.

The Food and Agriculture Organization has about 11 specialists regularly employed in the country in such fields as soils, cooperatives, bacteriology, veterinary science, nutrition, agricultural statistics, farm mechanization, and home economics. The program may be extended to cover agricultural research, extension, underground water and drainage, forestry, and fisheries.

The FAO operates almost entirely at the government level; Point Four seeks to go beyond government planning to the grass roots.

INDUSTRY

The people of Iraq, in common with their neighbors of the Middle East, live almost entirely by agriculture. About 80 per cent of the population earns its living directly from the soil, and most of the others indirectly.[35] Industry is still relatively undeveloped. Apart from the oil industry, which employs about 12,000 people, probably not more than 2,000 people are employed in what are called modern industrial plants.

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[34] *Ibid.*, p. 62.
[35] *Ibid.*, p. 43.

29:Dunn S-4 (1952)1952 MI Middle East
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initiative and financial assistance of the government.[36]

The government has been advised to encourage development of light industries: Cotton textiles, cottonseed oil crushing mills, jute mills, bone fertiliser plants, automobile tire factories, small steel mills, central machine shops, concrete block plants, possibly a paper mill, a chemical factory for making inorganic fertiliser, and possibly salt refineries.

The Mission strongly urged the government not to attempt to own or operate these new factories itself, but to encourage private capital to do so.[37] This recommendation has been followed in the main. The Industrial Bank, created with funds derived from the oil royalties, has been financing private industry in a number of fields, particularly cotton textiles and cottonseed oil crushing and refining. The outstanding exception is the new petroleum refinery being built by the government.

OIL

Oil reserves in Iraq are thought to be tremendous—at least a third of the total Middle Eastern reserves, which are reckoned at 50 billion barrels, or

—Photo Courtesy of Technical Cooperation Administration

Capacity of the Kut Barrage on the Tigris River in Iraq is almost a quarter of a million cubic feet of water per second, which makes it the largest diversion dam of its kind in the world. The dam was built by British contractors for the Iraq Government in 1939. With oil revenues now pouring into the treasury Iraq plans to build several more large-scale irrigation facilities for storage and diversion. New projects are already in progress in the upper reaches of the Tigris River system.

[36] *Ibid.*, p. 33.
[37] *Ibid.*, pp. 36-37.

29:Dunn S-4 (1952)1952 MI Middle East
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COTTON IN THE MIDDLE EAST

RESEARCH AND EDUCATION

654 242 At present the Department of Agriculture has less than 25 qualified agriculturists capable of research and educational work, and most of their time is said to be devoted to administrative and regulatory tasks.[49] A complete program in research and extension is needed. Such a program is being developed gradually now with the help of the various technical assistance agencies.

CREDIT

452 652 Production credit facilities are almost non-existent. An effort is being made, however, to increase the resources of the state-owned agricultural bank to provide adequate production credit and to establish storage facilities for crops. According to the United Nations' special reports, moneylenders' interest rates to farmers for crop production were 30 to 40 per cent before the government recently established the agricultural bank.

COTTON

248 Cotton has never been particularly important in Iraq, from the standpoint of either the acreage involved or the total production. Its potential, however, is great.

Table 33

IRAQ: Statistics on Cotton Production and Distribution
Specified Years, 1920-1951

Year beginning August 1	Acreage	Yield per Acre	Production	Consumption	Exports	Imports
	Acres	Pounds	Bales			
Average 1920-24	NA	NA	806	NA	NA	NA
Average 1925-29	NA	NA	2,977	NA	NA	NA
Average 1930-34	3,751	159	1,240	NA	NA	NA
Average 1935-39	43,000	97	10,773	NA	NA	NA
Average 1940-44	73,000	62	9,409	NA	10,477	2,845
Average 1945-49	21,619	100	4,493	4,000	3,152	2,733
1950	100,000	183	38,121	7,000	31,000	0
1951	125,000	135	38,000	10,000	1,887[1]	

[1] Exports, August through November.

SOURCE: Office of Foreign Agricultural Relations, United States Department of Agriculture, and International Cotton Advisory Committee.

Before the war, production averaged only about 12,000 bales and slightly less in the postwar years through 1949. Higher prices throughout the world, together with the export controls imposed by the United States and the shortage of cotton, sent production to about 38,000 bales. It would have been three to four times as large on the basis of the planted acreage had it not been for heavy insect damage.

AREA

About two-thirds of the cotton is produced under irrigation in the vicinity of Baghdad and Kut on the Euphrates and Tigris Rivers. These two areas, together with three or four other smaller ones, account for about 88 per cent of production. Some 10 to 12 per cent is produced in Northern Iraq, mostly around Mosul, and about 2 per cent in Southern Iraq, from Basra north along the river.

[49] *Economic Development of Iraq*, op. cit., pp. 98-99.

44:Matthews and Akrawi S, G-3 (1945-1946)1949 Mi Middle East
IRAQ MHI

to another are arranged, plans for new schools and classes are decided upon, and proposals, policy matters, complaints, and criticisms are discussed.

Finally must be mentioned the newly founded Committee on Authorship, Translation, and Publication, which is a self-perpetuating body of learned men forming a kind of academy. It may have a minimum of ten and a maximum of twenty members distributed among the various branches of learning. This committee endeavors to enrich the "Arabic Library" by translating important classics as well as modern books of science, technology, and general culture; to encourage original research and writing; to publish old Arabic manuscripts; and to standardize Arabic scientific terminology. The committee holds regular meetings to choose books to be translated or written, to select writers and translators, and to read and discuss the researches of members. It may give financial assistance to translators, authors, and publishers in the form of grants, purchase of copyrights, prizes, or any other manner considered advisable. It plans to establish contact with learned men and societies in Iraq and abroad, particularly throughout the Arabic world. Finally, it plans to publish its own bulletins and periodicals embodying the researches of its members.

Educational Finance

The Ministry of Education receives the third largest budgetary provision of all the departments of the Iraqi government, being exceeded only by the army and the police. The public educational institutions of Iraq are entirely supported by the central government. The provincial authorities contribute nothing to the school fund, nor do the municipal authorities except for occasional assistance given to poor pupils. For specific purposes, such as aid to poor students or enlargement or repair of a school, contributions are occasionally solicited from private citizens of a locality, under the auspices of the administrative and educational authorities. The schools may give dramatic performances and exhibits to secure funds for special needs. Except for these minor and irregular sources, the central government pays the whole cost of public education.

The percentage of the general budget allotted to education has fluctuated from year to year. Starting with 2.3 percent in 1920–21, it reached a maximum of 12.9 percent in 1938–39, declined again in the following years to 7.8 percent in 1944–45, and showed a slight rise to 8.6 percent in 1945–46. In absolute figures, however, the sums allotted to the Ministry of Education have risen consistently (except for 1923–24) from 130,360 dinars ($521,440) in 1920–21 to 1,630,800 dinars ($6,523,200) in 1945–46. The decline in the percentage in recent years shows that

44:Matthews and Akrawi S, G-3 (1945-1946)1949 MI Middle East
IRAQ MHI

*871 the increase in allotments to education did not keep pace with the increase
●652 in the expenditure of the government as a whole.

Of the total of 1,630,800 dinars allotted for the year 1945–46, 7.5 percent was to be spent on the central and provincial administration, including inspection, and 0.45 percent on books for public libraries and the activities of the Committee on Authorship, Translation, and Publication. The remainder, 92 percent, was to be spent on teaching and the schools. Expenditure on each type of education (primary, secondary, vocational, and teacher training) is left to the discretion of the Ministry. Deans of the higher colleges control the expenditure of their own budgets.

*871 Expenditure is made according to the instructions of the Ministry of Finance. Within the limits of these instructions the Minister of Education can sanction expenditures up to 500 dinars ($2,000) on any single item, the Director General and the deans of the colleges up to 37.5 dinars ($150) and the provincial educational directors up to 15 dinars ($60). The principals of primary schools are allowed 300 fils ($1.20) and those of secondary schools 1.5 dinars ($6.00) for miscellaneous expenses each month. Beyond these sums, school principals have no authority to spend except by permission of the provincial director of education or of the Director General. Consequently, a great deal of correspondence goes on between the schools and the administration asking for money for anything that cannot be covered by the miscellaneous expenditure fund. School equipment, books for libraries, furniture, stationery, all come from the central or provincial education authority, and no principal is allowed to spend money on these items. A few principals have attempted to expand their school libraries by soliciting contributions from students using the libraries, but most of the schools resign themselves to the meager collection of books provided by the Ministry.

Educational Legislation

*871 In general, education in Iraq is governed by the provisions of the Public Education Law of 1940. The law defines the functions of the Ministry of Education as the founding and maintenance of government schools of all types and levels; the supervision of private and foreign schools to direct them toward the general goals of the government schools; the organization of youth, particularly through military training, scouting, and physical education; and finally, the fostering of scientific and literary movements, the spread of general culture, and the liquidation of illiteracy. The law classifies the schools into primary, secondary, and higher institutions; according to purpose into schools of general culture and professional or

57: Davis S-4 (no date)1953 Ml Middle East
IRAQ MHI

Art. 89 *(as amended October 27, 1943).* The procedure in the Special Courts and the fees to be collected therein and the manner of appeal against, or revision of, the judgments thereof, shall be prescribed by law. 642 692

PART VI

FINANCIAL MATTERS

Art. 90. All taxes and excise dues shall remain unaltered as from the coming into force of this law, until changed by law. 642 652

Art. 91 *(as amended October 27, 1943).* Taxes and dues shall not be imposed except by law, provided that this shall not apply to charges collected by Government Departments in return for public services rendered by them or in return for the enjoyment of State property. Taxes and duties may not be imposed by ordinance.

Art. 92 *(as amended October 27, 1943).* Taxes and dues must be collected from the tax payers without distinction and none of them shall be exempted therefrom except by law.

Art. 93. No property of the State may be sold, granted, leased or otherwise disposed of except in accordance with law.

Art. 94. No monopoly or concession shall be granted for dealing with or using any of the natural resources of the land, or for any public service, nor shall the State revenues be farmed out, except in accordance with law, provided that, where the period relating to them exceeds three years, they must in each case be the subject of a special law.

Art. 95. The Government may not contract any loan, nor undertake anything involving payment out of public monies, except in accordance with a special law, unless the Budget Law makes provision therefor.

Art. 96. All monies received by Government officials must be paid into the State Treasury and accounted for in accordance with such procedure as is prescribed by law.

Art. 97. No salary may be allotted, nor remuneration paid, nor any monies belonging to the State Treasury expended for any reason whatsoever, except in accordance with law. No item in the budget estimates shall be expended except in such manner as is prescribed by law.

Art. 98. The budget estimates shall be sanctioned by an annual

57:Davis S-4 (no date) 1953 MI Middle East
IRAQ MHI

642 law known as the "Budget Law." The Budget Law must contain
652 an estimate of the income and expenditure for the year in question.

Art. 99. Parliament must approve the budget in the session preceding the commencement of the financial year to which the law in question relates.

Art. 100. The Minister of Finance must in the first place submit to the Chamber of Deputies all draft laws for the appropriation of monies or for increasing, decreasing or cancelling the approved budget estimates. Similarly, the Budget Law and all draft laws relating to loans to be contracted by the Government must be submitted to the Chamber of Deputies.

Art. 101. The debate on the Budget Law and voting thereon shall take place article by article separately. It shall then be voted upon as a whole. The budget shall be voted upon vote by vote.[1]

Art. 102. Should it be found necessary to expend sums of money urgently while Parliament is not sitting, the expenditure of which has not been sanctioned by the budget or by a special law, the King may, with the concurrence of the Council of Ministers, issue royal ordinances directing that financial measures shall be taken as provided by paragraph 3 of Article 26.

Art. 103. Parliament may pass a law for the appropriation of specified sums of money, to be expended over a period of years.

Art. 104. A law shall be passed providing for the setting up of a Department for the purpose of examining all expenditure and for the drawing up of a report for presentation to Parliament, at least once in each year, as to whether such expenditure is in conformity with the appropriations as approved by Parliament and has been expended in accordance with the procedure laid down by law.

Art. 105. No draft law may be introduced, nor any proposal put forward in either Assembly, involving the expenditure of any portion of the public revenues, except by a Minister.

Art. 106. The Chamber of Deputies may not make any decision, nor propose any amendment to a draft law, involving the reduction

[1] The debate on the budget may take place in respect of every item of expenditure, but it is each head of expenditure (chapter of the Budget Law) which when it comes to vote is taken as a unit (for instance, vote for health service, vote for police, vote for education, etc.) Information through the courtesy of Professor M. F. Abcarius, Beirut.—Ed.

57: Davis S-4 (no date)1953 Ml Middle East
IRAQ MHI

of expenditure arising out of treaties approved by Parliament, or the Constituent Assembly, unless approved by the King. 642 652

Art. 107. Should the new financial year have begun before the promulgation of the Budget Law relating thereto, and should Parliament have assembled, the Minister of Finance shall submit a draft law containing provisional budget estimates for a period not exceeding two months. On the expiration of the period covered by such estimates, the Minister of Finance may submit a fresh draft law of a similar nature. This procedure may be repeated on such occasions as may be necessary. Should Parliament not be sitting, the budget of the preceding year shall be followed without prejudice to the right of issuing the ordinances referred to in Article 102.

Art. 108 *(as amended October 27, 1943)*. The coinage of the State shall be determined by law.

PART VII

ADMINISTRATION OF THE PROVINCES

Art. 109. The administrative districts of Iraq, their classes, names, manner of institution, the powers of the officials and their titles shall be prescribed by a special law. 642 635

Art. 110. The law referred to in the preceding article shall provide that steps shall be taken in certain of the administrative divisions to ensure the performance of any obligations relating thereto, arising out of treaties concluded by the King and approved by Parliament or the Constituent Assembly.

Art. 111. Municipal affairs in Iraq shall be administered by means of Municipal Councils in accordance with a special law. In the administrative divisions, Administrative Councils shall perform such duties as may be prescribed for them by law.

Art. 112. Each Community shall have the right of establishing Councils in important administrative districts, competent to administer buildings and properties dedicated to waqfs (pious foundations) and bequests for charitable purposes. They shall be competent to deal with the collection of income derived therefrom, and the expenditure thereof, in accordance with the wishes of the donor or with the custom in use among the Community. Such Communities shall also undertake the supervision of the property of orphans in accord-

64: Shwadran S-4 (no date) 1955 MI Middle East
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industrial and handicraft production, but most of those were employed in small undertakings, with only about 2,000 working in what might be classified as modern industrial plants.[14] The United Nations reported in 1951 that industry continued to play a very minor part in the Iraqi economy and that the gross output was estimated at not more than ID 3,000,000.[15]

The general industrial and economic situation could perhaps be gauged by the consumption of oil and oil products, especially since the country had these supplies in such abundance. In 1929, internal oil consumption, including refinery needs, was 70,000 metric tons; in 1937 it had risen to 132,000 tons, but in 1950 it was only 929,000 tons. Excluding refinery needs, consumption in 1937 was only 88,000 tons; in 1949, 518,000; in 1950, 619,000; in 1951, 635,000; and in 1952, 690,000.[16]

The level of civic responsibility and national consciousness is illustrated by the taxpaying practices of the Iraqis. The first income tax law was enacted in 1927, but not before considerable modifications had been made and a long time had elapsed did the Government begin to receive any substantial revenue. The following table shows the annual revenue from income tax, the total revenue, and the percentage of income taxes in the total revenue:

Table IV. *Iraq, Percentage of Income Tax in Total Revenue*

Year	*Income Tax (in I. D.)*	*Total Revenue (in I. D.)*	*Percentage*
1943	1,016,082	18,810,000	5.4
1944	1,293,089	20,700,000	6.2
1945	1,149,394	20,790,000	5.5
1946	1,032,054	25,520,000	4.0
1947	1,081,379	23,510,000	4.6
1950	2,354,000	31,579,000	7.5[17]

[14] International Bank, *Iraq Mission Report*, 2, 129. Another estimate gives the total number of industrial workers in 1950 as not more than 72,000, including those employed in the oil industry. "The Economic Development of Iraq," *The Times Review of Industry*, Sept., 1953, 93.

[15] United Nations, Dept. of Economic Affairs, *Review of Economic Conditions in the Middle East 1951-52* (New York, 1953), 45. Henceforth cited U. N., *Review 1951-52*.

[16] U.N., *Review 1951-52*, 62; U. N., *Summary 1952-53*, 57; Anglo-Iranian Oil Co. Ltd., *Annual Report and Accounts for the Year ending 31st December 1952*, 20;—*Annual 1953*, 19.

[17] Great Britain, *Iraq*, 22; U.N., *Review 1949-50*, 78; *Annual Report of the National Bank of Iraq, July 1949-December 1950*, 53.

64: Shwadran S-4 (no date) 1955 M1 Middle East
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Table VI. *Iraq Royalty Payments*[35]

Year	*Payments (in I.D.)*	*Per cent of Revenue (from all sources)*
1927/28—1933/34 (average)	644,691	—
1934/35	1,019,304	14.1
1935/36	598,202	20.2
1936/37	599,968	9.9
1937/38	730,731	10.5
1938/39	1,977,458	25.2
1939/40	2,014,088	21.9
1940/41	1,575,915	16.0
1941/42	1,463,370	14.4
1942/43	1,463,371	10.6
1943/44	1,794,245	9.9
1944/45	2,132,405	11.3
1945/46	2,315,599	11.4
1946/47	2,326,968	9.3
1947/48	2,346,280	9.3
1948	2,012,000	9.0
1949	4,388,000	12.5
1950	5,285,000	16.6

rest of its concession; later, however, this was converted to a per ton basis. This arrangement made the Iraqis constantly demand increased production so that their income would be larger; they argued that the Company was not exploiting all the oil-bearing possibilities and was even pursuing a policy of limited production. In view of changed world conditions following World War II, the Company was willing to increase the per ton royalty and to increase production with the new,

[35] Both the amounts and the percentages are official figures of the Government of Iraq; the years 1927/28—47/48 are from the Government of Iraq, Ministry of Economics, Principal Bureau of Statistics, *Statistical Abstract 1939, 1940, 1941, 1942, 1943, 1944-1945, 1946, 1947,* and *1948;* the years 1948-1950 are from Directorate of Statistics and Research, National Bank of Iraq, *The Annual Report of the National Bank of Iraq* (Bagdad, 1951), 52. There are a number of discrepancies between the amounts, particularly in the percentages as given in the different *Abstracts,* and between the *Abstracts* and the *Bank Report;* moreover, there are also differences between these figures and unofficial figures, such as those in *The Statesman's Year-Book* for the years covered and other sources. However, the general picture both as to the amounts received by the Government and the percentage in the annual income—an average of 15.5 per cent over the entire period—is basically correct and shows graphically the role of oil royalties in the economy of the country. See also U. N., *Review 1949-50,* 63; U. N., *Public Finance Iraq,* 21, 41.

67: United Nations S-5 (1945-1954) 1955 Ml Middle East
IRAQ MHI

Chapter 4

IRAQ

Developments to the End of the Second World War

433 At the end of the First World War, when Iraq was constituted as a State, 312 very little had been done to develop its economy. An over-all irrigation 315 programme had been drawn up, and the Hindiyah barrage had been built on the Euphrates and work begun on the Habbaniyah escape channel, but the outbreak of war had interrupted progress. The war had also prevented the exploitation of oil deposits by the Turkish Petroleum Company, formed in 1914. In the nineteen [496] twenties, development was started. The digging of canals, the building of minor works and the installation of irrigation pumps resulted in a substantial increase in cultivation, and there was also a slight improvement in farming methods. Railways were extended and other means of transport improved.

436 Further steps were taken in the nineteen thirties. In 1932, instead of the 312 rupee, the Iraqi dinar became the unit of currency. The Kut barrage, on the 433 Tigris, and various canals, regulator dams and minor projects were completed. The establishment of a few cotton gins, textile plants and other factories • 652 producing consumer goods marked the beginning of modern industry. A government-423 owned Agricultural and Industrial Bank was set up. A land settlement law was passed in 1932 and amended in 1938, and work on land settlement began in 1933.

471 Of more importance to the Iraqi economy was the development of the petroleum 382 industry. In 1925, the Iraqi Petroleum Company, a successor to the Turkish 315 Petroleum Company, was granted a concession, and in 1927 the Kirkuk oilfield was 651 discovered. By 1934, that field had been brought into production, and two 652 pipelines, with an annual capacity of 2.2 million tons each, had been laid to the Mediterranean coast; these developments required an investment of $62 million. Exports of oil began that year. The royalties and other revenues from petroleum accruing to the Government greatly increased its receipts and made it possible to augment expenditure on economic and social development.

433 During the Second World War Allied troops stationed in Iraq spent large sums on local purchases; from 1941 to 1944 inclusive, these expenditures totalled £64 million. There was a corresponding increase in national income, expressed in monetary terms, and prices rose considerably, the wholesale price index reaching a peak of 590 in 1943 (December 1938 to August 1939 = 100) and standing at 503 in 1945. This addition to national income and rise in prices stimulated agriculture; the area under cultivation was considerably extended, by irrigation and greater use of farm machinery, and although yields declined, total output increased somewhat. The greater part of the Allied expenditures was saved, in the form of sterling balances, which, in July 1947, amounted to £57.9 million. 1/

1/ National Bank of Iraq, Annual Report, July 1949-December 1950 (Baghdad, 1951).

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Post-War Period, 1945 to 1954

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In the early post-war period there was little development. Petroleum production, and the revenue accruing to the Government therefrom, remained at the pre-war level or below and agricultural and industrial output showed little change. The deficit in the balance of payments was met by drawing on foreign exchange reserves. The Government budget showed deficits, and little was spent on capital works. By 1950, however, the situation began to change. Output of petroleum increased rapidly, and new agreements with the producing companies greatly raised government receipts. With the technical and financial assistance of the International Bank for Reconstruction and Development, a large-scale development plan was drawn up which is at present being carried out. The completion of the various projects under way should result in a considerable increase in the national income.

Production

Agriculture

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The increase in area and output achieved during the Second World War was generally maintained during the post-war period (see table 26). In recent years, there seems to have been a further extension in acreage, owing to increased irrigation and greater mechanization. 1/ Yields have continued to fluctuate in response to weather conditions, floods and attacks by locusts and other insect pests; total output has therefore varied considerably from year to year. The experience of recent years, notably that of 1952, has, however, shown that, thanks to the co-operation of other Middle Eastern and foreign governments, locust attacks cause much less damage than they did formerly. Similarly, completion of the irrigation works at present under way should greatly reduce the danger of floods like that of 1954, which destroyed many crops and damaged property.

The agricultural and livestock census 2/ of 1952/53, the first of its kind, puts the total agricultural holdings of Iraq at 6,384,000 hectares, of which

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1/ The number of pumps used in irrigation rose from 2,757, with a total horsepower of 91,332 in 1945, to 4,339, with a horsepower of 167,288 in 1953 (Ministry of Economics, Statistical Abstract 1953 (Baghdad)). In addition, the construction of canals made it possible to extend appreciably the area irrigated by existing dams. Early in 1951, there were 320 combines and 750 tractors (International Bank for Reconstruction and Development, The Economic Development of Iraq, (Baltimore, 1952), page 19). In 1952 and 1953, 625 combines and 502 tractors were sold to farmers; of these over two-thirds were sold in 1953 (Statistical Abstract). There were 2,091 tractors in 1954 (Le Commerce du Levant, 11 August 1954 (Beirut)).

2/ Ministry of Economics, Statistical Abstract 1953 (Baghdad).

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reduced by rigid controls, there was a large import surplus, which was only partly covered by such items as expenditures made by pilgrims and tourists in Iraq, receipts from transit trade and expenditure by foreign vessels in Iraqi ports. The main capital transfer items in the non-oil sector were drawings on the Iraqi State Railway Loan and the loan from the International Bank for Reconstruction and Development, and repayments of loans. Part of the large debit items shown under "errors and omissions" probably represent flight of capital.

The deficit in the non-oil sector has, since 1950, been more than covered by the surplus in the oil sector. In the years 1948 to 1950, the combined value of imports made by the petroleum companies and the profits and salaries remitted abroad by them exceeded the value of the petroleum exported. The large amount of capital brought in by the companies for investment, however, resulted in an over-all surplus in the oil sector. Since 1950, the value of petroleum exports has greatly increased and the surplus has risen considerably.

During the years 1947 to 1949, the surplus in the oil sector failed to cover the deficit in other sectors, and Iraq drew heavily on its sterling balances and other foreign assets. 1/ Beginning with 1950, however, there has been an increase in foreign assets, owing to the surplus on current account; in 1952 and 1953, this surplus was very large. The foreign assets of the National Bank of Iraq increased from ID 35.1 million at the end of 1949 to ID 41.9 million in 1950 and, after a small drop in 1951, to ID 46.7 million in 1952 and ID 64.6 million in 1953; at the end of September 1954, they stood at ID 77.6 million. At the end of 1953, all but ID 1.9 million consisted of sterling assets. 2/

As Iraq is part of the sterling area, its needs for dollars have been met from the dollar pool of that area. Since 1949, annual exports to the United States have been below ID 1 million while imports have ranged between ID 3.1 and ID 11.3 million; both earnings and expenditures of dollars on non-merchandise transactions have been small.

Monetary system and public finance

Money and Banking

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The basis of Iraq's monetary system was determined by the Iraq Currency Law of 1931 entrusting management and note issue to a Currency Board, sitting in London, which functioned until 1 July 1949 when the National Bank of Iraq, established in 1947, assumed control. The Bank is authorized to maintain a reserve "composed of gold and foreign currencies at a ratio of not less than 70 per cent and Iraqi Government securities at a ratio not exceeding 30 per cent". However, the National Bank during its early years of operation continued the Board policy of 100 per cent foreign exchange cover and exercised a passive role towards the amount of the money supply, which is mainly affected by changes in the balance of payments.

1/ Iraq sterling balances fell from £57.2 million at the end of 1947 to £43 million at the end of 1949.

2/ National Bank of Iraq, Quarterly Bulletin (Baghdad).

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In fact, as a result of the recent increase in Iraq's income from oil, of which 70 per cent is credited in sterling, to the National Bank for the account of the Development Board, the foreign exchange reserve of the Bank rose from ID 35.1 million in 1949 to ID 83.3 million in 1954, with a corresponding increase in the total assets (excluding cash holdings) of the Bank from ID 41.1 million to ID 94.5 million, respectively. Thus, the foreign exchange reserve has risen from 98 per cent of the total volume of currency issued in 1949, to 177 per cent in 1954, and the National Bank of Iraq's assets from 111 per cent to 201 per cent, respectively. The foreign exchange reserve is principally in sterling, and consists mainly of sterling securities and British Treasury bills.

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It was not until the National Bank of Iraq started operating as the central bank of the State and after passage by Parliament of the Law for the Control of Banking in 1950, that banking institutions assumed a greater role in the financial structure. The banking control law provides that all banks and sarrafs 1/ must obtain a licence from the National Bank of Iraq. Private banks, whether established in Iraq or abroad, must dispose of a capital in Iraq of not less than ID 250,000. Banks are required to maintain in Iraq not less than 50 per cent cover, against their total current and fixed deposits, of which 15 per cent must be deposited with the National Bank. However, the National Bank can reduce this proportion to 30 per cent or increase it to 70 per cent.

The National Bank of Iraq

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This bank was established in 1947 as a central bank "to manage the currency and ensure its stability, to serve the State finance, to facilitate internal and external payments and generally to promote and facilitate credits for trade, industry and agriculture". Its capital was fixed at ID 5 million, of which ID 2.5 million was transferred by the Government from the surplus of its Currency Reserve Fund. The other half is "deemed to be reserve guaranteed by the Iraqi Treasury to be covered from the bank's annual profit at the rate of 25 per cent or not more than ID 250,000". In addition to the issue and management of the currency, banking control and exchange control, the bank has issued several small loans to various government and semi-government institutions and non-commercial banks, but its 1954 statements show no outstanding loans or advances.

Commercial Banks

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Institutions operating according to the Law for the Control of Banking are the sarrafs and foreign and Iraqi commercial banks. The Iraqi banks include the Rafidain Bank, which was established in 1941 and is actively engaged in commerce. In addition, applications have been filed for the establishment of two new private banks, the capital of which has been subscribed by Iraqi nationals. One of these banks, the Iraqi Commercial Bank, is reported to be already operating. Foreign banks include branches of British banks, such as the Ottoman Bank, the British

1/ A sarraf is defined as "a person or company licensed to deal in banking in Iraq".

IRAQ MHI

453 652 Bank of the Middle East and the Eastern Bank, and branches of banks with head offices in other Arab countries, such as the Arab Bank and the Federal Bank of Lebanon. These banks have mostly confined their activities to lending money on relatively short term to trading firms, and to financing foreign trade. However, as a result of the Development Board's expenditure, the increase in economic activities and the growing confidence of the people in the banking system, commercial banks may extend their activities. There has been a considerable increase in the number of banks and their branches operating throughout Iraq; there were five banks and two licensed sarrafs when the banking control law of 1950 came into effect, while today there are seven main commercial banks with about twenty-four branches in various cities and towns, and more than fourteen licensed sarrafs.

652 Other State banks

In addition to the Rafidain Bank mentioned above, the Government has established four banks to supply medium-term or long-term credit: the Industrial Bank, Agricultural Bank, and Mortgage and Loan Bank.

In 1935 the Government established the Agricultural and Industrial Bank which was divided in 1940 into the Agricultural Bank and the Industrial Bank, but the two branches were not separated until April 1946. The aim of the Agricultural Bank is to assist agriculturists, through the granting of loans and the renting or selling on deferred payment of agricultural machinery, tools, seeds and fertilizers. It acts as agent for the grading and cleaning of crops, assists in the formation of co-operative societies and invests in agricultural enterprises. The Bank has made contributions in these various fields though its efforts have, in some instances, been handicapped by lack of available funds and by administrative shortcomings. Its nominal capital was ID 1 million, later raised to ID 2 million, and its paid-up capital in 1953 was raised from ID 1 million to ID 1.6 million. At the end of 1954, the Government issued a new ordinance advancing the Bank ID 500,000 to enable it to purchase machines and irrigation pumps and their accessories, to aid small farmers and also to increase its loans. Moreover, it is hoped that it will provide greater help to the small farmers who are to receive ownership of land under the Government's own land distribution schemes. Up to 31 March 1952, the Bank had loaned ID 2.05 million to 8,770 borrowers; of this ID 1.07 million had been repaid. In 1952/53, a further sum of ID 660,000 was advanced to 1,246 borrowers, and ID 146,000 on outstanding loans was repaid. 1/ Most of the loans have been medium-term, usually four to five years, and most have apparently been advanced to large landowners. 2/

The aim of the Industrial Bank is "to develop and assist industry in Iraq and to carry on banking business relating thereto". Its nominal capital was ID 500,000 in 1946, raised to ID 3 million in 1953; its paid-up capital in 1953 was ID 2.3 million. It is authorized to borrow money by the issue of negotiable bonds, or any other means decided on by its Board and approved by the Ministry of Finance. In addition the Industrial Bank, like the Agricultural Bank, has contracted loans,

1/ Statistical Abstract, 1953.

2/ Iverson, op. cit., pages 31 and 32.

652 and received money on current accounts. It has initiated and supported the creation of various new industries throughout Iraq. It holds a large proportion of the shares of eleven major Iraqi concerns, nine of which are industrial, one partly so and the other non-industrial. The total nominal value of the Industrial Bank's share in these enterprises amounted at the end of March 1953 to ID 995,000, out of a total capital of ID 4.77 million; by March 1954 its share had risen to ID 1.12 million. The bank has been gradually disposing of its share in enterprises to the public when these enterprises are firmly established, in order to stimulate more interest and to divert its capital to other new enterprises. 1/ By the end of 1951/52 the Industrial Bank had made 351 loans aggregating ID 772,000; of this ID 296,000 had been repaid. In 1952/53, 153 loans, totalling ID 657,000, were made and ID 192,000 was repaid. 2/

In addition to its lending activities, the Industrial Bank is studying various projects: the setting up of a paper and cardboard factory, the extension and modernization of the Fao salt works and the exploitation of salt domes in Iraq; the construction of a caustic soda and chlorine plant; the establishment of a glass industry using local sand; the setting up of a steel foundry; and the establishment, in co-operation with the Development Board, of a beet-sugar mill and a plant for extracting date sugar from inferior dates. Several other industrial studies and surveys are being made.

The balance sheets for the years 1946/47 to 1952/53 indicate that both the Industrial Bank and the firms in which it is a shareholder have made great progress; the total net profit of the bank over this period amounted to ID 305,366. The present industrial expansion is expected to increase its activities further.

The Mortgage Bank, established in 1948, started operations by the end of the financial year 1949/1950, with the primary object of providing loans on fixed property. The original law has been amended several times in order to increase the bank's capital and expand its operations. Thus, its statutory capital was increased from ID 2 million to ID 3 million, and its paid-up capital from ID 1,200 in 1949/50 to ID 1 million in 1952-53. The financial year 1953/54 witnessed an increase in its paid-up capital to ID 3 million and in the deposits of the Minors' Property Department to ID 455,000 while a loan of ID 250,000 which it had received from the National Bank was redeemed. In addition, the Government has undertaken to provide it with ID 2 million for the financing of its new housing project and is planning to increase further its capital. Moreover, the bank may borrow from the Development Board or it may use its statutory right to issue, with the approval of the Council of Ministers, government-guaranteed bonds in the open market in order to carry out fully its activities. Its present aim is, first, to advance loans on security of fixed property, thereby encouraging

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1/ Thus, the shares held by the Bank in the Spinning and Weaving Company decreased from ID 425,000 (face value) in 1952 to ID 225,000 in 1953; its shares in the Vegetable Oil Company from ID 60,000 to ID 30,000; and in the Cement Company from ID 270,000 to ID 249,000 (Iverson, op. cit. page 34).

2/ Statistical Abstract, 1953.

652 new building activity on the part of private enterprise; secondly, to convert old high interest loans into longer-term loans at a low interest rate; and thirdly, to build, on its own account, modern dwelling houses to be sold or rented to officials and employees with small incomes, payment being made by annual instalments over a period of from ten to twenty years, with an interest charge of 1 to 2 per cent. Finally, the bank is authorized to construct and maintain factories and workshops producing the materials and the services needed for the carrying out of its projects.

Increasing demands have been made on its services. The loan period has been extended from four years to eight and interest reduced to 4 per cent or less. Loans issued for the financial year ended 31 March 1954 amounted to about ID 1.6 million, of which ID 1.4 million was issued by its Baghdad office and the rest by its five branches outside Baghdad or through branches of the Agricultural Bank working as its agent in seven provinces. The bank has already acquired for its building programme plots of land in various parts of Baghdad; one scheme at West Bank, Baghdad, provides for a complete town of 500 houses. The bank is negotiating also with local administrations to carry out a building programme in Kut, Amarah, Basra, Muntafiq, Diwaniyah and Hillah.

In addition to the foregoing, the Government has provided a new type of credit, through the Loan (Movable Properties) Bank. It started operations in late 1951 with a capital of ID 250,000, which was raised in 1952 to ID 1 million. The main object of this bank is to facilitate credit and lending operations through loans to the public against personal guarantees to be collected by small repayments, at an interest charge of 3 per cent. In 1952/53, the bank advanced a total of ID 436,000 to 81,129 government employees and made secured loans of ID 73,000 to 1,238 other borrowers. 1/ In November 1954 an ordinance was issued authorizing the raising of a loan of ID 1 million in bonds, tax free at 3 1/2 per cent interest, through the National Bank, and an advance by the Ministry of Finance, to an amount not exceeding ID 250,000 to be repaid gradually by the bank from the sale of the bonds, thus enabling it to extend its activities throughout Iraq.

Public finance

652 651 Revenues and expenditures began to expand after 1942/43. During the war period, government revenue exceeded expenditure, but the situation was reversed during the financial years 1945/46 to 1949/50, when the budget showed a continuous deficit, totalling ID 15.5 million; about ID 9 million of this was incurred in the year 1948/49, owing to harvest failures and the Arab-Israeli war. Since the financial year 1950/51, the budget has shown a continuous surplus because of two fundamental changes; an increase in revenues from customs duties, excise tax and oil revenues, 30 per cent of which were allotted to the State budget; and establishment of the Development Board, discussed below, which assumed responsibility for the implementation of major capital works (table 29).

1/ Ibid.

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Table 29. Iraq: Budget Accounts, 1938/39 and 1947/48 to 1954/55
(Millions of Iraqi dinars)

Item	1938/39	1946/47	1947/48	1948/49	1949/50	1950/51	1951/52	1952/53	1953/54 a/	1954/55 a/
Revenue:										
Direct taxes on income and wealth....	0.45	2.17	2.27	2.74	3.15	3.26	4.02	3.00	2.77	...
Taxes on land and produce...	0.85	4.34	3.54	3.84	4.04	4.99	4.61	3.86	3.55	3.07
Customs duties.	2.63	5.17	6.30	7.21	8.61	10.33	12.22	11.86	19.24	20.00
Other indirect taxes.....	0.77	5.87	4.76	3.38	3.63	4.03	4.06	4.78		
Oil revenues...	1.98	2.33	2.35	2.01	3.24	5.29	5.38	21.62 b/	15.01	18.13
Other receipts.	1.16	5.64	4.80	4.54	4.97	5.65	7.24	5.42	5.11	...
Total	7.84	25.52	24.02	23.72	27.63	33.49	37.53	50.54	47.37	48.31
Expenditure:										
Education.....	0.72	1.74	2.16	2.57	2.60	3.60	4.09	2.22 c/	2.54 c/	4.19
Social welfare and health....	0.36	1.18	0.71	1.72	1.49	2.01	2.53	3.15	3.46	4.89
Communications and agriculture.....	0.58	1.85	1.66	1.91	1.51	1.88	1.98	2.75	2.30	4.87
Defence.....	1.62	5.28	4.36	6.75	6.59	7.26	7.94	13.75	11.99	17.92
Capital works..	2.46	3.05	3.57	3.93	3.38	3.60	2.19	4.35	3.60	...
Other expenditures.....	3.30	12.42	15.15	15.12	14.43	10.97	12.09	18.18	14.57	...
Total	9.04	25.52	27.61	32.00	30.00	29.32	30.82	44.40	43.67	57.61

Source: 1939 to 1953: Ministry of Economics, Statistical Abstract of Iraq (Baghdad); 1954; National Bank of Iraq; 1955: speech by the Minister of Finance reported in Al Shaib (Baghdad), 30 December 1954. Data are for fiscal years ending 31 March.

a/ Estimated.

b/ Including ID 5 million transferred from the Development Board and amounts received as settlement of claims on the petroleum companies.

c/ Excluding primary education.

67: United Nations S-5 (1945-1954) 1955 MS Middle East
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651 In real terms, both receipts and expenditure were for some years below the pre-war level. The total revenue index, in pre-war prices, dropped from 100 in 1938/39 to 41 in 1944, remaining around 50 at the end of the war, while the total expenditure index dropped to 29 and remained below 50. Both indices were below 100 until 1953 but since then revenue has been much higher, and expenditure slightly higher.

Apart from oil revenues, receipts have been characterized by the high proportion derived from indirect taxes, and the light taxation of agriculture. Among indirect taxes, customs duties are the most important. Import duties, which are concentrated on a few commodities such as sugar, tea, textiles and some machinery, increased from ID 2.6 million in 1938/39 to about ID 11 million in 1952/53, while export duties, though higher than the pre-war level, have fluctuated with the size of the harvest. The tariff laws have been amended several times since 1933, and at present the Government is awaiting the report and recommendations of two foreign experts in order to draw up a new law in harmony with the country's developing economy.

Excise taxes are levied on such goods as alcohol and gasoline, salt and tobacco. They have increased from about ID .62 million in 1938/39 to ID 2 million in 1946/47 and ID 3.63 million in 1952/53. In addition to the tax on tobacco, the Treasury receives 75 per cent of the profit from the tobacco monopoly, which was established in 1939.

Next in importance is the Istihlak tax on agriculture and animal products brought to the market for sale. In 1953, the Government abolished the tax on several items and submitted a draft law proposing a scheme of land taxation to replace the Istihlak. The revenues derived from the Istihlak have increased substantially from less than ID 1 million in the pre-war period to a peak of about ID 5 million in 1950/51.

The total yield from direct taxes, the so-called land tax, the property tax and income tax, has remained almost unchanged in the post-war period. The main source of revenue is the income and excess profits taxes and surtaxes, which are levied on a very limited number of taxpayers. The Government amended the income tax law of 1939 by a decree in May 1954 which increased exemptions on small and medium incomes.

About one-third of total expenditure is spent on security. This large proportion is partly due to the fact that "capital work" expenditure has gone down from about one-third of the total in 1937/38 to about one-tenth in 1952/53, having been largely transferred from the general budget to that of the Development Board.

Public debt

652 During the inter-war period the budgetary surpluses and deficits were insignificant; the Government met its excess expenditure through the issue of short-term Treasury bills. Since 1938/39, the Government has obtained several foreign loans and floated five domestic bond issues. The foreign debts consisted of two loans at 4 per cent interest from the United Kingdom to finance the Iraqi State Railways. The first amounted to ID 1 million, obtained in 1939, and was fully redeemed in 1942/43; the second amounted to £3 million and was

IRAQ MHI

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obtained in 1950. It was not fully drawn upon, and has been repaid. The other major foreign debt was a loan of $12.8 million from the International Bank for Reconstruction and Development, in 1950, to meet the foreign exchange requirements of the Wadi Tharthar irrigation scheme. In addition, the Government obtained several advances free of interest from the oil companies, totalling ID 4.5 million, which have now been repaid.

Five domestic loans, totalling ID 7 million, were used to finance the railways and irrigation schemes. Two of these, of ID 1 million each, at 3 per cent interest, issued in 1944 and 1947 with maturities of 3 and 5 years respectively, were redeemed. Other outstanding bond issues comprised a one ID 1 million loan with 3 1/2 per cent interest, issued in 1948, and two twenty year loans, issued in 1944 and 1948, for ID 1 million and ID 3 million respectively. The above mentioned total does not include outstanding Treasury bills and the loans and advances made by the National Bank, commercial banks or other institutions. However, the public debt of Iraq is comparatively small and does not constitute a real burden on the economy of the country. In fact, the Government now has almost no difficulty as far as revenues are concerned, in redeeming not only foreign debts but also domestic ones as well. It is believed that the floating of domestic loans is intended to absorb "idle money" and is an anti-inflationary measure, while the foreign loans were to provide foreign exchange required for various development schemes. The repayment of the United Kingdom loan and the announcement of the International Bank for Reconstruction and Development that the Government of Iraq had cancelled the unused balance of $6.5 million on its loan are evidence of Iraq's ability to meet its needs from its own resources.

Development programme

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The rapid increase in revenue anticipated from the expansion of petroleum production and the revision of the terms of payment by the oil companies led the Government to initiate an over-all plan to develop the resources of the country. In 1950, a Development Board was established and a comprehensive five-year (1951 to 1956) development plan, involving an estimated expenditure of ID 65.8 million, was drawn up.

In 1951, at the request of the Iraqi Government, a mission from the International Bank for Reconstruction and Development visited Iraq and submitted a report, which included a five-year plan with an estimated expenditure of ID 168.5 million. 1/ The Iraqi Government accordingly, in the light of the Bank's recommendation, replaced its earlier plan by a six-year plan (1 April 1951 to 31 March 1957) calling for expenditure of ID 155.4 million (table 30).

1/ International Bank for Reconstruction and Development, The Economic Development of Iraq (Baltimore, 1952).